



Energy for  
generations

# INTERIM FINANCIAL STATEMENTS

For the period to 30 June 2014

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## RESPONSIBILITY STATEMENT OF THE BOARD MEMBERS IN RESPECT OF THIS HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge and belief that the unaudited condensed consolidated set of financial statements for the six month period ended 30 June 2014, which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related notes thereto, have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

On behalf of the Board,



**Lochlann Quinn**, Chairman



**Pat O'Doherty**, Chief Executive

24 September 2014



# INDEPENDENT REVIEW REPORT OF KPMG TO THE ELECTRICITY SUPPLY BOARD

## INTRODUCTION

We have been engaged by the Electricity Supply Board ("ESB" or "the company") to review the condensed consolidated interim financial statements for the six month period ended 30 June 2014, which comprise the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related notes thereto. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

## DIRECTORS' RESPONSIBILITIES

The condensed consolidated interim financial statements are the responsibility of, and have been approved by, the Board Members.

As disclosed in note 2, the annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the EU.

## OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements, based on our review.

## SCOPE OF OUR REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in Ireland and the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the six month period ended 30 June 2014 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

Patricia Carroll

*for and on behalf of*

KPMG

Chartered Accountants, Statutory Audit Firm

Dublin, Ireland

24 September 2014

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six month period ended 30 June 2014

|   | Notes | Unaudited June 2014                   |                                       |                                       | Unaudited June 2013                   |                                       |                                       |
|---|-------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|   |       | Excluding exceptional items<br>€ '000 | Exceptional items<br>note 5<br>€ '000 | Including exceptional items<br>€ '000 | Excluding exceptional items<br>€ '000 | Exceptional items<br>note 5<br>€ '000 | Including exceptional items<br>€ '000 |
| Revenue   | 4     | 1,638,748                             | -                                     | 1,638,748                             | 1,711,764                             | -                                     | 1,711,764                             |
| Other operating income  | 5/6   | 14,924                                | 38,395                                | 53,319                                | 11,967                                | -                                     | 11,967                                |
| Operating costs   | 7     | (1,327,537)                           | -                                     | (1,327,537)                           | (1,364,919)                           | -                                     | (1,364,919)                           |
| Operating profit  |       | 326,135                               | 38,395                                | 364,530                               | 358,812                               | -                                     | 358,812                               |
| Net interest on borrowings  | 8     | (99,614)                              | -                                     | (99,614)                              | (104,687)                             | -                                     | (104,687)                             |
| Financing charges   | 8     | (23,078)                              | -                                     | (23,078)                              | (24,778)                              | -                                     | (24,778)                              |
| Fair value movements on financial instruments                     | 8     | (128,627)                             | -                                     | (128,627)                             | (24,537)                              | -                                     | (24,537)                              |
| Finance income  | 8     | 564                                   | -                                     | 564                                   | 932                                   | -                                     | 932                                   |
| Net finance cost  |       | (250,755)                             | -                                     | (250,755)                             | (153,070)                             | -                                     | (153,070)                             |
| Share of equity accounted investees (loss)/<br>profit, net of tax | 13    | (438)                                 | -                                     | (438)                                 | 8,494                                 | -                                     | 8,494                                 |
| Profit before taxation  |       | 74,942                                | 38,395                                | 113,337                               | 214,236                               | -                                     | 214,236                               |
| Income tax expense  | 18    | (4,792)                               | -                                     | (4,792)                               | (26,636)                              | -                                     | (26,636)                              |
| Profit after taxation   |       | 70,150                                | 38,395                                | 108,545                               | 187,600                               | -                                     | 187,600                               |
| <b>Attributable to:</b>   |       |                                       |                                       |                                       |                                       |                                       |                                       |
| Equity holders of the Parent                                      |       | 70,000                                | 38,395                                | 108,395                               | 187,465                               | -                                     | 187,465                               |
| Non-controlling interest  |       | 150                                   | -                                     | 150                                   | 135                                   | -                                     | 135                                   |
| <b>Profit for the financial period</b>                            |       | <b>70,150</b>                         | <b>38,395</b>                         | <b>108,545</b>                        | <b>187,600</b>                        | <b>-</b>                              | <b>187,600</b>                        |

Notes 1 to 32 form an integral part of these financial statements.

**Lochlann Quinn**, Chairman**Pat O'Doherty**, Chief Executive**Donal Flynn**, Group Finance Director

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2014

|  | Unaudited<br>June 2014<br>€ '000 | Unaudited<br>June 2013<br>€ '000 |
|--|----------------------------------|----------------------------------|
| <b>Profit for the financial period</b>   | <b>108,545</b>                   | 187,600                          |
| <b>Items that will never be reclassified subsequently to profit or loss:</b>                               |                                  |                                  |
| NIE pension scheme actuarial gains   | <b>1,429</b>                     | 11,585                           |
| Tax on items that will never be reclassified to profit or loss   | <b>(291)</b>                     | (2,665)                          |
|  | <b>1,138</b>                     | 8,920                            |
| <b>Items that are or may be reclassified subsequently to profit or loss:</b>                               |                                  |                                  |
| Effective hedge of a net investment in foreign subsidiary  | <b>(834)</b>                     | 1,190                            |
| Translation differences on consolidation of foreign subsidiaries and equity accounted investees            | <b>24,631</b>                    | (27,695)                         |
| Fair value (losses) / gains on cash flow hedges  | <b>(117,511)</b>                 | 72,076                           |
| Fair value losses on cash flow hedges in equity accounted investees  | <b>-</b>                         | (2,669)                          |
| Transferred to income statement on cash flow hedges  | <b>(26,586)</b>                  | (31,329)                         |
| Transferred to income statement on cash flow hedges in equity accounted investees                          | <b>13,833</b>                    | -                                |
| Tax on items that are or may be reclassified subsequently to profit or loss                                | <b>16,436</b>                    | (12,678)                         |
| Tax on items that are or may be reclassified subsequently to profit or loss for equity accounted investees | <b>-</b>                         | 747                              |
| Tax on items transferred from other comprehensive income (OCI)   | <b>3,032</b>                     | 3,736                            |
|  | <b>(86,999)</b>                  | 3,378                            |
| <b>Other comprehensive income for the financial period, net of tax</b>                                     | <b>(85,861)</b>                  | 12,298                           |
| <b>Total comprehensive income for the financial period</b>   | <b>22,684</b>                    | 199,898                          |
| <b>Attributable to:</b>  |                                  |                                  |
| Equity holders of the parent   | <b>22,534</b>                    | 199,763                          |
| Non-controlling interest   | <b>150</b>                       | 135                              |
| <b>Total comprehensive income for the financial period</b>   | <b>22,684</b>                    | 199,898                          |

**Lochlann Quinn**, Chairman

**Pat O'Doherty**, Chief Executive

**Donal Flynn**, Group Finance Director

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

|  | Notes | Unaudited<br>June 2014<br>€ '000 | Audited<br>December 2013<br>€ '000 |
|--|-------|----------------------------------|------------------------------------|
| <b>ASSETS</b>  |       |                                  |                                    |
| <b>Non-current assets</b>                                  |       |                                  |                                    |
| Property, plant and equipment                              | 10    | 10,525,366                       | 10,156,963                         |
| Intangible assets  | 11    | 184,385                          | 238,365                            |
| Goodwill   | 12    | 189,326                          | 182,013                            |
| Equity accounted investees                                 | 13    | 300                              | -                                  |
| Financial asset investments                                | 13    | 57,551                           | 49,359                             |
| Derivative financial instruments                           | 21    | 278,327                          | 353,555                            |
| Deferred tax assets  |       | 210,814                          | 179,722                            |
| <b>Total non-current assets</b>                            |       | <b>11,446,069</b>                | 11,159,977                         |
| <b>Current assets</b>                                      |       |                                  |                                    |
| Inventories  | 14    | 95,431                           | 83,753                             |
| Derivative financial instruments                           | 21    | 116,957                          | 94,208                             |
| Current tax asset  |       | -                                | 3,106                              |
| Trade and other receivables                                | 15    | 761,993                          | 899,223                            |
| Cash and cash equivalents                                  | 16    | 273,272                          | 370,848                            |
| Assets held for sale                                       | 17    | -                                | 170,558                            |
| <b>Total current assets</b>                                |       | <b>1,247,653</b>                 | 1,621,696                          |
| <b>Total assets</b>  |       | <b>12,693,722</b>                | 12,781,673                         |
| <b>EQUITY</b>  |       |                                  |                                    |
| Capital stock  |       | 1,979,882                        | 1,979,882                          |
| Translation reserve  |       | 5,904                            | (17,893)                           |
| Cash flow hedging reserve                                  |       | 167,270                          | 278,066                            |
| Other reserves   |       | (91,511)                         | (89,878)                           |
| Retained earnings  |       | 1,845,260                        | 1,970,275                          |
| <b>Equity attributable to equity holders of the Parent</b> |       | <b>3,906,805</b>                 | 4,120,452                          |
| Non-controlling interest                                   |       | 2,187                            | 2,037                              |
| <b>Total equity</b>  |       | <b>3,908,992</b>                 | 4,122,489                          |
| <b>LIABILITIES</b>   |       |                                  |                                    |
| <b>Non-current liabilities</b>                             |       |                                  |                                    |
| Borrowings and other debt                                  | 20    | 4,546,785                        | 4,393,404                          |
| Liability - ESB pension scheme                             | 23    | 699,832                          | 693,717                            |
| Liability - NIE pension scheme                             | 22    | 105,707                          | 109,666                            |
| Employee related liabilities                               | 23    | 116,752                          | 124,998                            |
| Deferred income and government grants                      | 25    | 546,321                          | 561,346                            |
| Provisions   | 26    | 183,617                          | 184,180                            |
| Deferred tax liabilities                                   |       | 804,863                          | 807,942                            |
| Derivative financial instruments                           | 21    | 702,163                          | 637,306                            |
| <b>Total non-current liabilities</b>                       |       | <b>7,706,040</b>                 | 7,512,559                          |
| <b>Current liabilities</b>                                 |       |                                  |                                    |
| Borrowings and other debt                                  | 20    | 113,256                          | 121,992                            |
| Liability - ESB pension scheme                             | 23    | 76,646                           | 72,511                             |
| Employee related liabilities                               | 23    | 53,807                           | 57,773                             |
| Trade and other payables                                   | 24    | 629,208                          | 675,411                            |
| Deferred income and government grants                      | 25    | 47,419                           | 46,974                             |
| Provisions   | 26    | 32,827                           | 75,558                             |
| Current tax liabilities                                    |       | 43,357                           | 27,553                             |
| Derivative financial instruments                           | 21    | 82,170                           | 54,027                             |
| Liabilities associated with assets held for sale           | 17    | -                                | 14,826                             |
| <b>Total current liabilities</b>                           |       | <b>1,078,690</b>                 | 1,146,625                          |
| <b>Total liabilities</b>                                   |       | <b>8,784,730</b>                 | 8,659,184                          |
| <b>Total equity and liabilities</b>                        |       | <b>12,693,722</b>                | 12,781,673                         |

Lochlann Quinn, Chairman

Pat O'Doherty, Chief Executive

Donal Flynn, Group Finance Director



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2014

## Unaudited reconciliation of changes in equity

|  | Capital stock<br>€ '000 | Translation reserve<br>€ '000 | Cash flow hedging reserve<br>€ '000 | Other reserves <sup>1</sup><br>€ '000 | Retained earnings<br>€ '000 | Total<br>€ '000  | Non controlling interest<br>€ '000 | Total equity<br>€ '000 |
|--|-------------------------|-------------------------------|-------------------------------------|---------------------------------------|-----------------------------|------------------|------------------------------------|------------------------|
| <b>Balance at 1 January 2013</b>                                       | 1,979,882               | (6,952)                       | 286,286                             | (82,889)                              | 1,601,343                   | <b>3,777,670</b> | 1,845                              | <b>3,779,515</b>       |
| <b>Total comprehensive income / (loss) for the period</b>              |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| Profit for the financial period  | -                       | -                             | -                                   | -                                     | 187,465                     | <b>187,465</b>   | 135                                | <b>187,600</b>         |
| NIE pension scheme actuarial gains                                     | -                       | -                             | -                                   | 11,585                                | -                           | <b>11,585</b>    | -                                  | <b>11,585</b>          |
| Revaluation reserves on acquisition of Synergen Power Ltd.             | -                       | -                             | -                                   | (2,771)                               | 2,771                       | -                | -                                  | -                      |
| Translation differences net of hedging                                 | -                       | (26,505)                      | -                                   | -                                     | -                           | <b>(26,505)</b>  | -                                  | <b>(26,505)</b>        |
| Cash flow hedges:  |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| - Net fair value gains   | -                       | -                             | 72,076                              | -                                     | -                           | <b>72,076</b>    | -                                  | <b>72,076</b>          |
| - Transfers to income statement  |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| - Finance cost (interest)  | -                       | -                             | 2,160                               | -                                     | -                           | <b>2,160</b>     | -                                  | <b>2,160</b>           |
| - Finance cost (foreign translation movements)                         | -                       | -                             | (6,879)                             | -                                     | -                           | <b>(6,879)</b>   | -                                  | <b>(6,879)</b>         |
| - Other operating expenses   | -                       | -                             | (26,610)                            | -                                     | -                           | <b>(26,610)</b>  | -                                  | <b>(26,610)</b>        |
| - Fair value losses for hedges in equity accounted investees           | -                       | -                             | (2,669)                             | -                                     | -                           | <b>(2,669)</b>   | -                                  | <b>(2,669)</b>         |
| Tax on items taken directly to statement of comprehensive income (OCI) | -                       | -                             | (12,678)                            | (2,665)                               | -                           | <b>(15,343)</b>  | -                                  | <b>(15,343)</b>        |
| Tax on items transferred to income statement                           | -                       | -                             | 3,736                               | -                                     | -                           | <b>3,736</b>     | -                                  | <b>3,736</b>           |
| Tax on items taken directly to OCI for equity accounted investees      | -                       | -                             | 747                                 | -                                     | -                           | <b>747</b>       | -                                  | <b>747</b>             |
| <b>Total comprehensive income / (loss) for the period</b>              | -                       | (26,505)                      | 29,883                              | 6,149                                 | 190,236                     | <b>199,763</b>   | 135                                | <b>199,898</b>         |
| <b>Transactions with owners recognised directly in equity</b>          |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| Dividends  | -                       | -                             | -                                   | -                                     | (78,402)                    | <b>(78,402)</b>  | -                                  | <b>(78,402)</b>        |
| <b>Balance at 30 June 2013</b>   | 1,979,882               | (33,457)                      | 316,169                             | (76,740)                              | 1,713,177                   | <b>3,899,031</b> | 1,980                              | <b>3,901,011</b>       |
| <b>Balance at 1 January 2014</b>                                       | <b>1,979,882</b>        | <b>(17,893)</b>               | <b>278,066</b>                      | <b>(89,878)</b>                       | <b>1,970,275</b>            | <b>4,120,452</b> | 2,037                              | <b>4,122,489</b>       |
| <b>Total comprehensive income / (loss) for the period</b>              |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| Profit for the financial period  | -                       | -                             | -                                   | -                                     | 108,395                     | <b>108,395</b>   | 150                                | <b>108,545</b>         |
| NIE pension scheme actuarial gains                                     | -                       | -                             | -                                   | 1,429                                 | -                           | <b>1,429</b>     | -                                  | <b>1,429</b>           |
| Revaluation reserves on acquisition of Synergen Power Ltd.             | -                       | -                             | -                                   | (2,771)                               | 2,771                       | -                | -                                  | -                      |
| Translation differences net of hedging                                 | -                       | 23,797                        | -                                   | -                                     | -                           | <b>23,797</b>    | -                                  | <b>23,797</b>          |
| Cash flow hedges:  |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| - Net fair value losses  | -                       | -                             | (117,511)                           | -                                     | -                           | <b>(117,511)</b> | -                                  | <b>(117,511)</b>       |
| - Transfers to income statement  |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| - Finance cost (interest)  | -                       | -                             | 5,031                               | -                                     | -                           | <b>5,031</b>     | -                                  | <b>5,031</b>           |
| - Finance cost (foreign translation movements)                         | -                       | -                             | (6,218)                             | -                                     | -                           | <b>(6,218)</b>   | -                                  | <b>(6,218)</b>         |
| - Other operating expenses   | -                       | -                             | (25,399)                            | -                                     | -                           | <b>(25,399)</b>  | -                                  | <b>(25,399)</b>        |
| - Transfers to income statement for equity accounted investees         | -                       | -                             | 13,833                              | -                                     | -                           | <b>13,833</b>    | -                                  | <b>13,833</b>          |
| Tax on items taken directly to statement of comprehensive income (OCI) | -                       | -                             | 16,436                              | (291)                                 | -                           | <b>16,145</b>    | -                                  | <b>16,145</b>          |
| Tax on items transferred to income statement                           | -                       | -                             | 3,032                               | -                                     | -                           | <b>3,032</b>     | -                                  | <b>3,032</b>           |
| <b>Total comprehensive income / (loss) for the period</b>              | -                       | <b>23,797</b>                 | <b>(110,796)</b>                    | <b>(1,633)</b>                        | <b>111,166</b>              | <b>22,534</b>    | 150                                | <b>22,684</b>          |
| <b>Transactions with owners recognised directly in equity</b>          |                         |                               |                                     |                                       |                             |                  |                                    |                        |
| Dividends  | -                       | -                             | -                                   | -                                     | (236,181)                   | <b>(236,181)</b> | -                                  | <b>(236,181)</b>       |
| <b>Balance at 30 June 2014</b>   | <b>1,979,882</b>        | <b>5,904</b>                  | <b>167,270</b>                      | <b>(91,511)</b>                       | <b>1,845,260</b>            | <b>3,906,805</b> | 2,187                              | <b>3,908,992</b>       |

<sup>1</sup>Other reserves comprises of (i) a €47.1 million revaluation reserve (31 December 2013: €49.8 million) which arose following the acquisition of the remaining 30% of Synergen Power Limited in 2009; (ii) other reserves relating to the NIE pension scheme of (€133.1) million (31 December 2013: (€134.2) million) and (iii) a non-distributable reserve of €5.0 million which was created on the sale of the Group's share in Ocean Communications Limited in 2001.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ended 30 June 2014

|  | Notes | Unaudited<br>June 2014<br>€ '000 | Unaudited<br>June 2013<br>€ '000 |
|--|-------|----------------------------------|----------------------------------|
| <b>Cash flows from operating activities</b>                                  |       |                                  |                                  |
| Profit after taxation  |       | 108,545                          | 187,600                          |
| <b>Adjustments for:</b>  |       |                                  |                                  |
| Depreciation and amortisation  | 7     | 354,809                          | 337,597                          |
| Amortisation of supply contributions and other deferred income               | 25    | (18,343)                         | (16,657)                         |
| Net emissions costs  |       | 7,727                            | 21,525                           |
| (Profit) / loss on disposal of non-current assets                            | 6     | (272)                            | 118                              |
| Net finance cost   | 8     | 250,755                          | 153,070                          |
| Impact of fair value adjustments in operating costs                          |       | (36,975)                         | 6,045                            |
| Losses / (profits) from equity accounted investees                           | 13    | 438                              | (8,494)                          |
| Profit on disposal of subsidiaries and equity accounted investees            | 5     | (38,395)                         | -                                |
| Income tax expense   | 18    | 4,792                            | 26,636                           |
| <b>Operating cash flows before changes in working capital and provisions</b> |       | <b>633,081</b>                   | <b>707,440</b>                   |
| Charge in relation to provisions   |       | 1,660                            | 2,225                            |
| Charge in relation to employee related liabilities                           |       | 10,088                           | 13,239                           |
| Utilisation of provisions  |       | (5,078)                          | (6,348)                          |
| Utilisation of employee related liabilities                                  |       | (39,873)                         | (86,929)                         |
| Decrease in trade and other receivables                                      |       | 137,230                          | 76,393                           |
| (Increase) / decrease in inventories   |       | (15,463)                         | 4,731                            |
| (Decrease) in trade and other payables                                       |       | (92,123)                         | (68,245)                         |
| <b>Cash generated from operations</b>  |       | <b>629,522</b>                   | <b>642,506</b>                   |
| Current tax (paid) / refunded  |       | (9,423)                          | 2,389                            |
| Financing costs paid   |       | (104,632)                        | (124,478)                        |
| <b>Net cash inflow from operating activities</b>                             |       | <b>515,467</b>                   | <b>520,417</b>                   |
| <b>Cash flows from investing activities</b>                                  |       |                                  |                                  |
| Purchase of property, plant and equipment                                    |       | (371,367)                        | (253,518)                        |
| Purchase of intangible assets  |       | (11,196)                         | (7,965)                          |
| Proceeds from sale of non-current assets                                     |       | 394                              | 186                              |
| Purchase of financial assets   |       | (12,710)                         | (11,484)                         |
| Proceeds from sale of subsidiaries and equity accounted investees            |       | 45,290                           | -                                |
| Dividends received from equity accounted investees                           |       | -                                | 17,805                           |
| Interest received  |       | 564                              | 932                              |
| <b>Net cash outflow from investing activities</b>                            |       | <b>(349,025)</b>                 | <b>(254,044)</b>                 |
| <b>Cash flows from financing activities</b>                                  |       |                                  |                                  |
| Dividends paid   |       | (236,181)                        | (78,402)                         |
| Repayments of term debt facilities and finance leases                        |       | (86,197)                         | (154,406)                        |
| Proceeds from the issue of new debt  |       | 141,437                          | 35,846                           |
| Decrease in other borrowings (net)   |       | 10,500                           | (85,532)                         |
| Payments on inflation linked interest rate swaps                             | 21    | (95,600)                         | (6,294)                          |
| <b>Net cash inflow from financing activities</b>                             |       | <b>(266,041)</b>                 | <b>(288,788)</b>                 |
| <b>Net (decrease) in cash and cash equivalents</b>                           |       | <b>(99,599)</b>                  | <b>(22,415)</b>                  |
| <b>Cash and cash equivalents at 1 January</b>                                | 16    | <b>370,848</b>                   | <b>159,405</b>                   |
| <b>Effect of exchange rate fluctuations on cash held</b>                     |       | <b>2,023</b>                     | <b>(3,419)</b>                   |
| <b>Cash and cash equivalents at 30 June</b>                                  | 16    | <b>273,272</b>                   | <b>133,571</b>                   |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

ESB is a company domiciled in the Republic of Ireland. The condensed consolidated interim financial statements of ESB as at and for the six months ended 30 June 2014 comprise the results of the Company and its subsidiaries (together referred to as 'ESB' or 'the Group') and the Group's interests in associates and joint arrangements. These results are unaudited but were reviewed by our auditors. The condensed financial information herein does not constitute the statutory financial statements of ESB, which were prepared as at and for the year ended 31 December 2013 and are available on our website [www.esb.ie](http://www.esb.ie). The auditor's report on those financial statements was unqualified.

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 - Interim Financial Reporting as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

The following standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretative Committee are effective for first time in current financial year and the impact of IFRS 10 and IFRS 11 is set out below.

| Accounting standard / interpretation   | Effective date |
|--|----------------|
| IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities. IASB also issued IAS 27 Separate Financial Statements (2011), which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011), which supersedes IAS 28 (2008). | 1 January 2014 |
| Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)  | 1 January 2014 |
| Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)  | 1 January 2014 |
| Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)   | 1 January 2014 |
| Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)  | 1 January 2014 |
| IFRIC 21 Levies  | 1 January 2014 |

A number of new standards, amendments to standards and interpretations are not yet effective for the period, and have not been applied in preparing the financial statements. We are currently assessing the full impact of these amendments on the Group.

| New/ Revised International Financial Reporting Standards  | Expected effective date |
|---|-------------------------|
| Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)                                  | 1 July 2014             |
| Amendments to IFRS 11: Accounting for acquisitions of interest in Joint Operations                    | 1 January 2016          |
| IFRS 14: Regulatory Deferral Accounts   | 1 January 2016          |
| Amendments to IAS 36 and IAS 38: Clarification of acceptable methods of depreciation and amortisation | 1 January 2016          |

The nature and effect of the changes are further explained below.

### (a) Subsidiaries

As a result of the introduction of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires the Group to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2014 and has confirmed that there has been no impact on the financial position of the Group.

### (b) Joint arrangements

As a result of the introduction of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

The Group has re-evaluated its involvement in its joint arrangements and has confirmed that these investments meet the criteria of joint ventures which continue to be accounted for using the equity method; accordingly there has been no impact on recognised assets, liabilities and comprehensive income of the Group.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. SEGMENT REPORTING

As a result of issuing publicly traded debt, the Group comes within the scope of IFRS 8 Operating Segments, and has made the appropriate disclosures in these financial statements.

### (i) Segment revenue - 2014

|                       | Electric<br>Ireland<br>€ '000 | ESB<br>Networks<br>€ '000 | ESB<br>Generation<br>and Wholesale<br>Markets<br>€ '000 | NIE <sup>1</sup><br>€ '000 | Other<br>Segments<br>€ '000 | Consolidation<br>and<br>eliminations<br>€ '000 | Total<br>€ '000  |
|-----------------------|-------------------------------|---------------------------|---|----------------------------|-----------------------------|--|------------------|
| External revenues     | 1,038,945                     | 237,433                   | 203,867   | 125,518                    | 32,985                      | -  | <b>1,638,748</b> |
| Inter-segment revenue | 1,465                         | 241,884                   | 534,635   | 11,709                     | 96,861                      | (886,554)                                      | -                |
| <b>Revenue</b>        | <b>1,040,410</b>              | <b>479,317</b>            | <b>738,502</b>  | <b>137,227</b>             | <b>129,846</b>              | <b>(886,554)</b>                               | <b>1,638,748</b> |

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

### (ii) Segment operating costs - 2014

|                               |             |           |           |          |           |         |                  |
|-------------------------------|-------------|-----------|-----------|----------|-----------|---------|------------------|
| Depreciation and amortisation | (4,255)     | (176,371) | (104,730) | (63,217) | (6,236)   | -       | <b>(354,809)</b> |
| Other operating costs         | (1,009,094) | (199,982) | (491,526) | (45,922) | (112,758) | 886,554 | <b>(972,728)</b> |

### (iii) Operating result - 2014

|  |               |                |                |              |                  |          |                  |
|--|---------------|----------------|----------------|--------------|------------------|----------|------------------|
| Operating profit                           | 27,061        | 119,369        | 180,642        | 28,088       | 9,370            | -        | <b>364,530</b>   |
| Net finance cost                           | (213)         | (659)          | (17,555)       | (24,795)     | (207,533)        | -        | <b>(250,755)</b> |
| Share of equity accounted investees (loss) | -             | -              | -              | -            | (438)            | -        | <b>(438)</b>     |
| <b>Profit / (loss) before taxation</b>     | <b>26,848</b> | <b>118,710</b> | <b>163,087</b> | <b>3,293</b> | <b>(198,601)</b> | <b>-</b> | <b>113,337</b>   |

### (i) Segment revenue - 2013

|                       | Electric<br>Ireland<br>€ '000 | ESB<br>Networks<br>€ '000 | ESB<br>Generation<br>and Wholesale<br>Markets<br>€ '000 | NIE <sup>1</sup><br>€ '000 | Other<br>Segments<br>€ '000 | Consolidation<br>and<br>eliminations<br>€ '000 | Total<br>€ '000  |
|-----------------------|-------------------------------|---------------------------|---|----------------------------|-----------------------------|--|------------------|
| External revenues     | 1,042,577                     | 239,624                   | 242,567   | 128,606                    | 58,390                      | -  | 1,711,764        |
| Inter-segment revenue | 1,869                         | 221,377                   | 575,350   | 11,144                     | 92,126                      | (901,866)                                      | -                |
| <b>Revenue</b>        | <b>1,044,446</b>              | <b>461,001</b>            | <b>817,917</b>  | <b>139,750</b>             | <b>150,516</b>              | <b>(901,866)</b>                               | <b>1,711,764</b> |

All inter-segment revenues are eliminated upon consolidation and are reflected in the eliminations column above.

### (ii) Segment operating costs - 2013

|                               |           |           |           |          |           |         |             |
|-------------------------------|-----------|-----------|-----------|----------|-----------|---------|-------------|
| Depreciation and amortisation | (4,476)   | (172,110) | (98,626)  | (58,500) | (3,885)   | -       | (337,597)   |
| Other operating costs         | (990,589) | (172,851) | (570,151) | (47,392) | (148,205) | 901,866 | (1,027,322) |

### (iii) Operating result - 2013

|  |               |                |                |              |                  |          |                |
|--|---------------|----------------|----------------|--------------|------------------|----------|----------------|
| Operating profit / (loss)                              | 49,381        | 132,476        | 149,140        | 33,858       | (6,043)          | -        | 358,812        |
| Net finance cost                                       | (314)         | (1,119)        | (15,393)       | (24,659)     | (111,585)        | -        | (153,070)      |
| Share of equity accounted investees<br>profit / (loss) | -             | -              | 8,809          | -            | (315)            | -        | 8,494          |
| <b>Profit / (loss) before taxation</b>                 | <b>49,067</b> | <b>131,357</b> | <b>142,556</b> | <b>9,199</b> | <b>(117,943)</b> | <b>-</b> | <b>214,236</b> |

<sup>1</sup> NIE segment includes depreciation on fair value uplift recognised on the acquisition of NIE.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. SEGMENT REPORTING (continued)

| (b) Other disclosures   | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| <b>Additions to non-current assets (excluding acquisitions)</b> |                     |                     |
| Electric Ireland  | 3,795               | 2,799               |
| ESB Networks  | 176,242             | 163,959             |
| ESB Generation and Wholesale Markets                            | 188,853             | 63,046              |
| NIE   | 52,689              | 42,434              |
| Other segments  | 27,693              | 23,547              |
|   | <b>449,272</b>      | 295,785             |

Additions to non-current assets (excluding acquisitions) includes investment in property, plant and equipment, intangible assets (excluding emissions allowances) and financial assets.

## 5. EXCEPTIONAL ITEMS

The Group presents certain items separately which are unusual by virtue of their size and incidence in the context of its ongoing core operations. This presentation is made in the income statement to aid understanding of the performance of the Group's underlying business. Judgement is used by the Group in assessing the particular items which should be disclosed as exceptional.

|   | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| Profit on disposal of investment in subsidiaries and equity accounted investees | 38,395              | -                   |

Further to the announcement on 27 February 2013 that ESB intended to sell its 50% shareholding in the Amorebieta tolling plant in Bizkaia Energia SL in Spain, on 30 April 2014 ESB completed the sale of its interest in Bizkaia Energia SL and the Group's 100% subsidiary ESBI Facility Management España SL to an affiliate of ArcLight Capital Partners, LLC.

The profit on disposal of ESB's shareholding in Bizkaia Energia SL and ESBI FM España, being the proceeds received less the carrying amount of the investment as at the sale date, direct selling expenses, associated translation reserve and cashflow hedge reserve amounts reclassified on disposal, was €38.4 million.

## 6. OTHER OPERATING INCOME / (EXPENSES)

|  | June 2014<br>€ '000 | June 2013<br>€ '000 |
|--|---------------------|---------------------|
| Profit / (loss) on disposal of property, plant and equipment and intangible assets     | 272                 | (118)               |
| Amortisation of supply contributions   | 16,273              | 16,657              |
| Fair value movements on assets held at fair value through profit and loss <sup>1</sup> | (1,621)             | (4,572)             |
| <b>Total</b>   | <b>14,924</b>       | 11,967              |

<sup>1</sup> These fair value movements relate to adjustments to the value of investments in renewables enterprises held by Novusmodus, a subsidiary which is a venture capital business and as such Novusmodus investments are carried at fair value through profit and loss, as detailed in note 13.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| <b>7. OPERATING COSTS</b>  | <b>June 2014</b><br><b>€ '000</b> | June 2013<br>€ '000 |
|--|-----------------------------------|---------------------|
| Employee costs (note 9)  | <b>226,337</b>                    | 217,306             |
| Fuel costs   | <b>353,383</b>                    | 410,570             |
| Other electricity related costs  | <b>153,867</b>                    | 147,934             |
| Operations and maintenance   | <b>239,141</b>                    | 251,512             |
| Depreciation and amortisation (notes 10/11)  | <b>354,809</b>                    | 337,597             |
| <b>Total</b>   | <b>1,327,537</b>                  | 1,364,919           |
| <br>   |                                   |                     |
| <b>8. NET FINANCE COST AND OTHER FINANCING CHARGES</b>                               | <b>June 2014</b><br><b>€ '000</b> | June 2013<br>€ '000 |
| Interest payable on borrowings   | <b>120,972</b>                    | 119,188             |
| Interest payable on finance leases   | -                                 | 1,637               |
| Interest payable   | <b>120,972</b>                    | 120,825             |
| Less capitalised interest  | <b>(21,358)</b>                   | (16,138)            |
| <b>Net interest on borrowings</b>  | <b>99,614</b>                     | 104,687             |
| <b>Financing charges:</b>  |                                   |                     |
| - on NIE pension scheme (note 22)  | <b>2,255</b>                      | 2,388               |
| - on ESB pension scheme (note 23)  | <b>17,340</b>                     | 18,096              |
| - on employee related liabilities (note 23)  | <b>1,214</b>                      | 1,963               |
| - on power station closure costs (note 26)   | <b>1,793</b>                      | 1,776               |
| - on other provisions (note 26)  | <b>476</b>                        | 555                 |
| <b>Total financing charges</b>   | <b>23,078</b>                     | 24,778              |
| <b>Fair value (gains) / losses on financial instruments:</b>                         |                                   |                     |
| - currency / interest rate swaps: cash flow hedges, transfer from OCI                | <b>5,031</b>                      | 2,160               |
| - interest rate swaps and inflation linked swaps not qualifying for hedge accounting | <b>123,542</b>                    | 22,487              |
| - foreign exchange contracts not qualifying for hedge accounting                     | <b>54</b>                         | (110)               |
| <b>Total fair value losses on financial instruments</b>                              | <b>128,627</b>                    | 24,537              |
| <b>Finance cost</b>  | <b>251,319</b>                    | 154,002             |
| <b>Finance income</b>  | <b>(564)</b>                      | (932)               |
| <b>Net finance cost</b>  | <b>250,755</b>                    | 153,070             |

The financing charges on provisions are calculated in accordance with the policy for discounting of future payment obligations as disclosed in the annual report.

During the six month period to 30 June 2014 the Group, together with its counterparty banks, agreed a restructuring of the inflation linked swaps including amendments to certain critical terms (see note 21).

In addition to the amounts transferred from the statement of comprehensive income relating to interest rate swaps and foreign exchange contracts disclosed above, a further gain of €6.2 million (30 June 2013: gain of €6.8 million) has been transferred from the cash flow hedge reserve to net finance cost and other financing charges during the period. However this amount is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. EMPLOYEES

| Employee costs in the period  | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| <b>Current staff costs (excluding pension)</b>                      |                     |                     |
| Salaries  | <b>222,759</b>      | 221,256             |
| Overtime  | <b>18,056</b>       | 10,860              |
| Social welfare costs  | <b>15,616</b>       | 16,279              |
| Other payroll benefits <sup>1</sup>                                 | <b>13,126</b>       | 13,740              |
| Capitalised payroll   | <b>(69,506)</b>     | (71,234)            |
| <b>Net payroll cost for employees</b>                               | <b>200,051</b>      | 190,901             |
| <b>Pension and other employee benefit costs</b>                     |                     |                     |
| Pension charge - other schemes <sup>2</sup>                         | <b>21,127</b>       | 21,611              |
| NIE pension scheme charge <sup>3</sup>                              | <b>5,159</b>        | 4,794               |
|   | <b>26,286</b>       | 26,405              |
| <b>Total employee related costs charged to the income statement</b> | <b>226,337</b>      | 217,306             |

<sup>1</sup> These benefits primarily include travel and subsistence expenses and accruals for holiday leave balances remaining at period end.

<sup>2</sup> The pension charge to other schemes includes contributions to the ESB Defined Contribution Pension Scheme, the ESB General Employees' Superannuation Scheme and the 'options' section of the NIE Scheme.

<sup>3</sup> The NIE pension scheme charge relates solely to the 'Focus' section of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). See note 22 for further details.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 10. PROPERTY, PLANT & EQUIPMENT

|  | Land and buildings<br>€ '000 | Plant and machinery<br>€ '000 | Total assets in commission<br>€ '000 | Assets under construction<br>€ '000 | Total<br>€ '000   |
|--|------------------------------|-------------------------------|--------------------------------------|-------------------------------------|-------------------|
| <b>Cost</b>                                |                              |                               |                                      |                                     |                   |
| <b>Balance at 1 January 2013</b>           | 1,132,073                    | 14,846,030                    | 15,978,103                           | 938,759                             | <b>16,916,862</b> |
| Additions                                  | 415                          | 67,669                        | 68,084                               | 208,252                             | <b>276,336</b>    |
| Retirements / disposals                    | (162)                        | (4,524)                       | (4,686)                              | -                                   | <b>(4,686)</b>    |
| Transfer of assets held for resale         | -                            | (2,965)                       | (2,965)                              | -                                   | <b>(2,965)</b>    |
| Transfers out of assets under construction | 9,930                        | 169,692                       | 179,622                              | (179,622)                           | -                 |
| Transfers to intangible assets             | -                            | (1,554)                       | (1,554)                              | -                                   | <b>(1,554)</b>    |
| Translation differences                    | (413)                        | (182,105)                     | (182,518)                            | (15,398)                            | <b>(197,916)</b>  |
| <b>Balance at 30 June 2013</b>             | 1,141,843                    | 14,892,243                    | 16,034,086                           | 951,991                             | <b>16,986,077</b> |
| <b>Balance at 1 January 2014</b>           | 1,161,523                    | 14,846,597                    | 16,008,120                           | 1,129,110                           | <b>17,137,230</b> |
| Additions                                  | 128                          | 73,592                        | 73,720                               | 351,646                             | <b>425,366</b>    |
| Retirements / disposals                    | (56)                         | (4,009)                       | (4,065)                              | -                                   | <b>(4,065)</b>    |
| Transfers from assets held for resale      | 146                          | 435,137                       | 435,283                              | -                                   | <b>435,283</b>    |
| Transfers out of assets under construction | 2,902                        | 95,102                        | 98,004                               | (98,004)                            | -                 |
| Transfers to / from intangible assets      | (69)                         | 222                           | 153                                  | (3,481)                             | <b>(3,328)</b>    |
| Translation differences                    | 338                          | 156,145                       | 156,483                              | 18,325                              | <b>174,808</b>    |
| <b>Balance at 30 June 2014</b>             | 1,164,912                    | 15,602,786                    | 16,767,698                           | 1,397,596                           | <b>18,165,294</b> |
| <b>Depreciation</b>                        |                              |                               |                                      |                                     |                   |
| <b>Balance at 1 January 2013</b>           | 615,954                      | 6,013,172                     | 6,629,126                            | -                                   | <b>6,629,126</b>  |
| Charge for the period                      | 10,595                       | 311,627                       | 322,222                              | -                                   | <b>322,222</b>    |
| Retirements / disposals                    | (156)                        | (4,226)                       | (4,382)                              | -                                   | <b>(4,382)</b>    |
| Transfers to assets held for resale        | -                            | (1,229)                       | (1,229)                              | -                                   | <b>(1,229)</b>    |
| Translation differences                    | (85)                         | (59,880)                      | (59,965)                             | -                                   | <b>(59,965)</b>   |
| <b>Balance at 30 June 2013</b>             | 626,308                      | 6,259,464                     | 6,885,772                            | -                                   | <b>6,885,772</b>  |
| <b>Balance at 1 January 2014</b>           | 636,876                      | 6,343,391                     | 6,980,267                            | -                                   | <b>6,980,267</b>  |
| Charge for the period                      | 11,560                       | 327,801                       | 339,361                              | -                                   | <b>339,361</b>    |
| Retirements / disposals                    | (52)                         | (3,891)                       | (3,943)                              | -                                   | <b>(3,943)</b>    |
| Transfers from assets held for resale      | 59                           | 270,251                       | 270,310                              | -                                   | <b>270,310</b>    |
| Transfers to / from intangible assets      | 69                           | (222)                         | (153)                                | -                                   | <b>(153)</b>      |
| Translation differences                    | 76                           | 54,010                        | 54,086                               | -                                   | <b>54,086</b>     |
| <b>Balance at 30 June 2014</b>             | 648,588                      | 6,991,340                     | 7,639,928                            | -                                   | <b>7,639,928</b>  |
| <b>Net book value at 30 June 2014</b>      | <b>516,324</b>               | <b>8,611,446</b>              | <b>9,127,770</b>                     | <b>1,397,596</b>                    | <b>10,525,366</b> |
| <b>Net book value at 31 December 2013</b>  | 524,647                      | 8,503,206                     | 9,027,853                            | 1,129,110                           | <b>10,156,963</b> |
| <b>Net book value at 30 June 2013</b>      | 515,535                      | 8,632,779                     | 9,148,314                            | 951,991                             | <b>10,100,305</b> |
| <b>Net book value at 1 January 2013</b>    | 516,119                      | 8,832,858                     | 9,348,977                            | 938,759                             | <b>10,287,736</b> |

During the period the group capitalised interest of €21.4 million (30 June 2013: €16.1 million) in assets under construction, using an effective interest rate of 4.9% (30 June 2013: 5.25%).

The carrying value of non-depreciable assets at 30 June 2014 is €86.4 million (31 December 2013: €75.8 million).

Property, plant and equipment with a net book value of €nil at 30 June 2014 is included above at a cost of €2,792.6 million (31 December 2013: €2,682.5 million).

Retirements / disposals in both 2014 and 2013 primarily relate to assets that have been fully depreciated.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 11. INTANGIBLE ASSETS

|   | Software and<br>other<br>intangible assets<br>€ '000 | Emission<br>allowances<br>€ '000 | Software under<br>development<br>€ '000 | Total<br>€ '000 |
|---|--|----------------------------------|---|-----------------|
| <b>Cost</b>                                       |  |                                  |   |                 |
| <b>Balance at 1 January 2013</b>                  | 541,855  | 110,340                          | 7,953                                   | <b>660,148</b>  |
| Software additions                                | 2,566  | -                                | 5,399                                   | <b>7,965</b>    |
| Purchase of emissions                             | -  | 7,082                            | -                                       | <b>7,082</b>    |
| Software disposals                                | (928)  | -                                | -                                       | <b>(928)</b>    |
| Settlement of emissions allowances                | -  | (80,517)                         | -                                       | <b>(80,517)</b> |
| Transfers out of software under development       | 1,471  | -                                | (1,471)                                 | -               |
| Transfers to / from property, plant and equipment | 1,554  | -                                | -                                       | <b>1,554</b>    |
| Translation differences                           | (8,064)  | (597)                            | (102)                                   | <b>(8,763)</b>  |
| Transfers to assets held for sale                 | (271)  | -                                | -                                       | <b>(271)</b>    |
| <b>Balance at 30 June 2013</b>                    | <b>538,183</b>                                       | <b>36,308</b>                    | <b>11,779</b>                           | <b>586,270</b>  |
| <b>Balance at 1 January 2014</b>                  | 550,570  | 60,241                           | 22,783                                  | <b>633,594</b>  |
| Software additions                                | 4,715  | -                                | 6,481                                   | <b>11,196</b>   |
| Purchase of emissions                             | -  | 2,595                            | -                                       | <b>2,595</b>    |
| Software disposals                                | (195)  | -                                | -                                       | <b>(195)</b>    |
| Settlement of emissions allowances                | -  | (58,738)                         | -                                       | <b>(58,738)</b> |
| Transfers out of software under development       | 5,673  | -                                | (5,673)                                 | -               |
| Transfers to / from property, plant and equipment | (153)  | -                                | 3,481                                   | <b>3,328</b>    |
| Translation differences                           | 6,754  | 67                               | 66                                      | <b>6,887</b>    |
| <b>Balance at 30 June 2014</b>                    | <b>567,364</b>                                       | <b>4,165</b>                     | <b>27,138</b>                           | <b>598,667</b>  |
| <b>Amortisation</b>                               |  |                                  |   |                 |
| <b>Balance at 1 January 2013</b>                  | 372,550  | -                                | -                                       | <b>372,550</b>  |
| Charge for the period                             | 15,375   | -                                | -                                       | <b>15,375</b>   |
| Translation differences                           | (3,949)  | -                                | -                                       | <b>(3,949)</b>  |
| Retirements / disposals                           | (927)  | -                                | -                                       | <b>(927)</b>    |
| <b>Balance at 30 June 2013</b>                    | <b>383,049</b>                                       | -                                | -                                       | <b>383,049</b>  |
| <b>Balance at 1 January 2014</b>                  | 395,229  | -                                | -                                       | <b>395,229</b>  |
| Charge for the period                             | 15,448   | -                                | -                                       | <b>15,448</b>   |
| Retirements / disposals                           | (195)  | -                                | -                                       | <b>(195)</b>    |
| Other transfers                                   | 153  | -                                | -                                       | <b>153</b>      |
| Translation differences                           | 3,647  | -                                | -                                       | <b>3,647</b>    |
| <b>Balance at 30 June 2014</b>                    | <b>414,282</b>                                       | -                                | -                                       | <b>414,282</b>  |
| <b>Net book value at 30 June 2014</b>             | <b>153,082</b>                                       | <b>4,165</b>                     | <b>27,138</b>                           | <b>184,385</b>  |
| <b>Net book value at 31 December 2013</b>         | 155,341  | 60,241                           | 22,783                                  | <b>238,365</b>  |
| <b>Net book value at 30 June 2013</b>             | 155,134  | 36,308                           | 11,779                                  | <b>203,221</b>  |
| <b>Net book value at 1 January 2013</b>           | 169,305  | 110,340                          | 7,953                                   | <b>287,598</b>  |

Software costs include both internally developed and externally purchased assets. The majority of these costs however are represented by internally developed assets.

Emissions allowances are not amortised as they are held for settlement in the following year.

Other intangible assets include grid connections and other wind farm development assets.

Amortisation of intangible assets is charged to the income statement as part of operating costs.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 12. GOODWILL

|                                  | € '000         |
|----------------------------------|----------------|
| <b>Balance at 1 January 2013</b> | 185,938        |
| Translation differences          | (8,916)        |
| <b>Balance at 30 June 2013</b>   | 177,022        |
| <b>Balance at 1 January 2014</b> | 182,013        |
| Translation differences          | 7,313          |
| <b>Balance at 30 June 2014</b>   | <b>189,326</b> |

Goodwill was recognised on the acquisition of Northern Ireland Electricity (NIE) in December 2010, and relates to the fair value of the expected return on future investment in the Regulated Asset Base (RAB) of the NIE business. Goodwill is reviewed annually in December for impairment, by assessing the recoverable amount of the investment, based on its value in use.

The annual impairment test of goodwill was carried out at December 2013 in accordance with IAS 36. No reduction in the value of goodwill was deemed to be required, subsequent to the impairment test noted. During the period to 30 June 2014, there were no additional indicators of impairment.

Northern Ireland Authority for Utility Regulation (NIAUR) announced in October 2011 that the next price control programme (RP5) applicable to NIE would take effect from 1 October 2012 rather than 1 April 2012. NIAUR published its final determination for RP5 in October 2012. In November 2012, NIE advised the regulator that it was unable to accept the proposed terms for the RP5 price control, and on 30 April 2013 the matter was referred to the UK Competition Commission.

The Competition Commission issued its final determination on 15 April 2014. The final determination has been reviewed and the Directors believe that it does not have a material impact on the carrying value of goodwill associated with NIE.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 13. FINANCIAL ASSET INVESTMENTS

|  | Equity accounted investees<br>€ '000 | Financial assets at fair value through profit or loss<br>€ '000 | Total<br>€ '000 |
|--|--------------------------------------|---|-----------------|
| <b>Balance at 1 January 2013</b>                   | 31,436                               | 48,849  | <b>80,285</b>   |
| Additions  | -                                    | 11,484  | <b>11,484</b>   |
| Transfer to other payables                         | 1,261                                | -   | <b>1,261</b>    |
| Share of profit                                    | 8,494                                | -   | <b>8,494</b>    |
| Fair value movement on cash flow hedges            | (1,922)                              | -   | <b>(1,922)</b>  |
| Fair value movement - transfer to income statement | -                                    | (4,572)   | <b>(4,572)</b>  |
| Dividends received                                 | (17,805)                             | -   | <b>(17,805)</b> |
| Translation differences                            | (3,972)                              | -   | <b>(3,972)</b>  |
| Reclass held for resale                            | (17,492)                             | -   | <b>(17,492)</b> |
| <b>Balance at 30 June 2013</b>                     | -                                    | 55,761  | <b>55,761</b>   |
| <b>Balance at 1 January 2014</b>                   | -                                    | 49,359  | <b>49,359</b>   |
| Additions  | 987                                  | 12,710  | <b>13,697</b>   |
| Disposals  | -                                    | (2,897)   | <b>(2,897)</b>  |
| Transfer from other payables                       | (249)                                | -   | <b>(249)</b>    |
| Share of losses                                    | (438)                                | -   | <b>(438)</b>    |
| Fair value movement - transfer to income statement | -                                    | (1,621)   | <b>(1,621)</b>  |
| <b>Balance at 30 June 2014</b>                     | 300                                  | 57,551  | <b>57,851</b>   |

### Interests in equity accounted investees

The following companies have been included in the ESB Group accounts as equity accounted investees:

| Name of the company       | Country             | Holding<br>30 June 2014<br>% of share<br>capital owned | Holding<br>31 December 2013<br>% of share<br>capital owned |
|---------------------------|---------------------|--|--|
| Bizkaia Energia SL        | Spain               | 0% <sup>1</sup>  | 50%  |
| Marchwood Power Ltd       | United Kingdom      | 0% <sup>2</sup>  | 0%   |
| Oweninny Power Ltd        | Republic of Ireland | 50% <sup>3</sup>                                       | 50%  |
| Emerald Bridge Fibres Ltd | Republic of Ireland | 50%  | 50%  |

<sup>1</sup> In April 2014, ESB reached an agreement for the sale of its investment in Bizkaia Energia SL (see note 5).

<sup>2</sup> In November 2013, ESB reached an agreement for the sale of Marchwood Power Limited.

<sup>3</sup> At 30 June 2014, the investment in Oweninny Power Limited was held at €nil.

### Financial assets at fair value through profit or loss

The Group owns a venture capital business, Novusmodus, in which seed capital is invested into emerging technology entities. These investments are managed purely for an investment return and are consequently carried at fair value through the income statement. No financial assets held at fair value through profit or loss are controlled by ESB. Additions include investments in a number of clean energy and new technology companies and additional investment in the VantagePoint clean energy fund. These investments have been fair valued at the year end and the movement transferred to the income statement. The fair value movements in both 2014 and 2013 relate to adjustments to the value of certain investments in renewable enterprises.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVENTORIES

|           | June 2014<br>€ '000 | December 2013<br>€ '000 |
|-----------|---------------------|-------------------------|
| Materials | 20,821              | 17,962                  |
| Fuel      | 74,610              | 65,791                  |
|           | <b>95,431</b>       | 83,753                  |

Inventories consumed during the six month period to 30 June 2014 totalled €69.5 million (30 June 2013: €95.5 million). There were no inventory impairments recognised during the period (31 December 2013: €nil)

### 15. TRADE AND OTHER RECEIVABLES

|  | June 2014<br>€ '000 | December 2013<br>€ '000 |
|--|---------------------|-------------------------|
| Retail electricity receivables - billed        | 118,708             | 102,427                 |
| Retail electricity receivables - unbilled      | 152,013             | 214,129                 |
| Total retail electricity receivables           | 270,721             | 316,556                 |
| SEM pool related receivables                   | 50,728              | 95,547                  |
| Use of System receivables (including unbilled) | 153,094             | 180,408                 |
| Other electricity receivables                  | 123,600             | 163,953                 |
| Total electricity receivables                  | 598,143             | 756,464                 |
| Trade receivables - non-electricity            | 36,683              | 40,923                  |
| Amounts due from equity accounted investees    | 4,148               | 4,846                   |
| Other receivables                              | 57,375              | 71,205                  |
| Prepayments                                    | 65,644              | 25,785                  |
|  | <b>761,993</b>      | 899,223                 |

#### Wholesale and retail credit risk

Trade and other receivables can be divided into final retail electricity customers (billed and unbilled), SEM pool related receivables, Use of System receivables, and other (non-electricity) receivables. Risks relating to these receivables have not changed significantly from those disclosed in the most recent Annual Report.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 16. CASH AND CASH EQUIVALENTS

|                          | June 2014<br>€ '000 | December 2013<br>€ '000 |
|--------------------------|---------------------|-------------------------|
| Cash at bank and in hand | 273,272             | 370,848                 |

## 17. ASSETS HELD FOR SALE

|  | June 2014<br>€ '000 | December 2013<br>€ '000 |
|--|---------------------|-------------------------|
| Property, plant and equipment                          | -                   | 164,975                 |
| Other current assets                                   | -                   | 5,583                   |
| Total assets held for sale                             | -                   | 170,558                 |
| Total liabilities associated with assets held for sale | -                   | (14,826)                |
| <b>Total assets held for sale - net</b>                | -                   | 155,732                 |

Further to the Irish Government's proposal in February 2012 that ESB would dispose of some non-strategic generation capacity, on 27 February 2013 ESB announced its intention to sell its 50% shareholding in each of its international tolling plants, namely Marchwood Power Limited in the UK and Bizkaia Energia SL in Spain.

The investments in Marchwood Power Limited and Bizkaia Energia SL were sold in November 2013 and April 2014 respectively (see note 5).

In October 2013, ESB announced its intention to sell its investment in its two peat-fired generation stations, namely West Offaly Power and Lough Ree Power, and accordingly these assets were classified as held for sale in the 2013 financial statements.

Since that announcement detailed analyses were carried out which concluded that it was financially more beneficial to both ESB and its shareholders for ESB to retain ownership of the peat plants. The remainder of the €400 million special dividend announced in 2012 will be funded from ESB's existing facilities.

As a result, at 30 June 2014 these assets no longer meet the criteria for assets held for sale under IFRS 5 and have been reclassified to property, plant and equipment at the balance sheet date. These assets have been re-measured at the lower of their recoverable amount and their carrying value as at 1 January 2014 and depreciation has been charged on these assets for the six month period to 30 June 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18. TAXATION

| Income tax expense / (credit)                     | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| <b>Current tax expense</b>                        |                     |                     |
| Current tax                                       | 26,871              | 16,218              |
| Prior year under / (over) provision               | 2,095               | (16,807)            |
|   | <b>28,966</b>       | (589)               |
| <b>Deferred tax expense</b>                       |                     |                     |
| Origination and reversal of temporary differences | (22,410)            | 8,616               |
| Prior year under / (over) provision               | (1,764)             | 18,609              |
|   | <b>(24,174)</b>     | 27,225              |
| <b>Total</b>                                      | <b>4,792</b>        | 26,636              |

## 19. EQUITY

### (a) Non-controlling interest

Non-controlling interests at 31 December 2013 and 30 June 2014 relate to minority shareholdings in Crockahenny Wind Farm Limited, Mountain Lodge Power Limited and Airvolution Energy Limited.

### (b) Dividends

|   | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| <b>Dividends on capital stock:</b>  |                     |                     |
| <b>Total dividend paid: 11.92 (31 December 2013: 3.96) cents per capital stock unit</b> | <b>236,181</b>      | 78,402              |

Total dividends paid during 2014 year to date amounts to €236.2 million and includes a final dividend of €28.8 million (1.46 cents per unit of stock) in respect of 2013, a dividend of €160.9 million (8.12 cents per unit of stock) paid in January 2014 and €46.5 million (2.34 cents per unit of stock) paid in May 2014, both arising from the sale of generation assets.

Total dividends paid during 2013 include a final dividend of €78.4 million (3.96 cents per unit of stock) in respect of 2012, and an interim dividend of €68.4 million (3.45 cents per unit of stock) paid in November in respect of 2013.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. BORROWINGS AND OTHER DEBT

| (a) Borrowings                        | Recourse borrowings<br>€ '000 | Non-recourse borrowings<br>€ '000 | June 2014<br>Total<br>€ '000 | December 2013<br>Total<br>€ '000 |
|---------------------------------------|-------------------------------|-----------------------------------|------------------------------|----------------------------------|
| <b>Current borrowings</b>             |                               |                                   |                              |                                  |
| - Repayable by instalments            | 100,822                       | 12,434                            | 113,256                      | 90,655                           |
| - Repayable other than by instalments | -                             | -                                 | -                            | 31,337                           |
| <b>Total current borrowings</b>       | <b>100,822</b>                | <b>12,434</b>                     | <b>113,256</b>               | <b>121,992</b>                   |
| <b>Non-current borrowings</b>         |                               |                                   |                              |                                  |
| - Repayable by instalments            |                               |                                   |                              |                                  |
| Between one and two years             | 61,969                        | 3,965                             | 65,934                       | 103,593                          |
| Between two and five years            | 257,310                       | 56,616                            | 313,926                      | 301,142                          |
| After five years                      | 567,549                       | 289,216                           | 856,765                      | 737,703                          |
|                                       | 886,828                       | 349,797                           | 1,236,625                    | 1,142,438                        |
| - Repayable other than by instalments |                               |                                   |                              |                                  |
| Between one and two years             | 237,528                       | -                                 | 237,528                      | 210,359                          |
| Between two and five years            | 930,655                       | 233,971                           | 1,164,626                    | 966,661                          |
| After five years                      | 1,411,028                     | 496,978                           | 1,908,006                    | 2,073,946                        |
|                                       | 2,579,211                     | 730,949                           | 3,310,160                    | 3,250,966                        |
| <b>Total non-current borrowings</b>   | <b>3,466,039</b>              | <b>1,080,746</b>                  | <b>4,546,785</b>             | <b>4,393,404</b>                 |
| <b>Total borrowings outstanding</b>   | <b>3,566,861</b>              | <b>1,093,180</b>                  | <b>4,660,041</b>             | <b>4,515,396</b>                 |

See section (c) for details of applicable interest rates.

### Current borrowings by facility

|  | Ref | June 2014<br>€ '000 | December 2013<br>€ '000 |
|--|-----|---------------------|-------------------------|
| Long-term bank borrowings                    | 5   | 100,822             | 86,254                  |
| Private placement borrowings                 | 6   | -                   | 33,899                  |
| Non-recourse long-term project finance debt  | 2   | 1,929               | 1,839                   |
| Non-recourse short-term project finance debt | 7   | 10,505              | -                       |
|  |     | <b>113,256</b>      | <b>121,992</b>          |

### Non-current borrowings by facility

|   | Ref | June 2014<br>€ '000 | December 2013<br>€ '000 |
|---|-----|---------------------|-------------------------|
| Fuel financing arrangement                  | 3   | 29,858              | 29,793                  |
| Non-recourse long-term project finance debt | 2   | 349,797             | 212,283                 |
| ESB Eurobonds                               | 1   | 1,735,626           | 1,721,167               |
| NIE Eurobonds                               | 4   | 730,949             | 704,854                 |
| Long-term bank borrowings                   | 5   | 886,271             | 922,329                 |
| Private placement borrowings                | 6   | 814,284             | 802,978                 |
|   |     | <b>4,546,785</b>    | <b>4,393,404</b>        |

With the exception of borrowings relating to the non-recourse project finance debt, which is secured against specific assets, none of the borrowings are secured against the Group's asset.

At 30 June 2014, ESB was rated BBB+ from Standard & Poor's and Fitch and Baa1 (equivalent to BBB+) from Moody's. The outlook on all three rating agencies at 30 June 2014 was stable.

### 1. ESB Eurobonds

The table below provides details of ESB Eurobonds included in borrowings at 30 June 2014.

| Issuer              | Value             | Date           | Tenor    | Coupon |
|---------------------|-------------------|----------------|----------|--------|
| ESB Finance Limited | Stg£275.0 million | March 2010     | 10 years | 6.500% |
| ESB Finance Limited | €600.0 million    | September 2012 | 5 years  | 6.250% |
| ESB Finance Limited | €500.0 million    | November 2012  | 7 years  | 4.375% |
| ESB Finance Limited | €300.0 million    | November 2013  | 10 years | 3.494% |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. BORROWINGS AND OTHER DEBT (continued)

### 2. Non-recourse long-term project finance debt

In September 2012 Carrington Power Limited (CPL), a wholly owned subsidiary of ESB, completed the financial close of an 881MW Combined Cycle Gas Turbine power plant in Carrington, near Manchester. Finance was structured on a 70/30 debt/equity basis, with the debt of Stg£523.0 million being provided by a syndicate of banks by way of non-recourse project finance, incorporating export credit support from the Swiss Export Credit Agency, SERV. Stg£284.7 million (31 December 2013: Stg£181.7 million) debt was drawn at 30 June 2014. The plant is scheduled to be commissioned by 2016, and the assets under construction are Stg£384.9 million at 30 June 2014 (31 December 2013: Stg £230.0 million).

### 3. Fuel financing arrangement

In December 2012 the Group received €30.0 million from the sale of fuel inventories, and at the same date contracted to buy them back in December 2015 at a fixed price. This transaction has the effect of a financing arrangement, and is disclosed in non-current borrowings above.

### 4. NIE Eurobonds

As part of the acquisition of NIE, a Eurobond of Stg£175.0 million was also acquired at fair value at the acquisition date. This facility had a 6.875% fixed coupon rate and is repayable in 2018.

In June 2011, NIE Limited issued a Stg£400.0 million 15 year Sterling bond with a fixed coupon of 6.375%.

### 5. Long-term bank borrowings

Long-term bank borrowings include €393.6 million (31 December 2013: €408.8 million) of floating rate debt borrowed on a bilateral basis, while the remainder is fixed interest debt.

A €1.4 billion credit facility with a syndicate of 14 banks to draw down bank finance as required up to February 2018, is available to the Group. The facility is undrawn at 30 June 2014.

In December 2013, a new facility of €100.0 million was signed with the EIB to support renewable connections to the electricity network in the southwest of Ireland. The facility is undrawn at 30 June 2014.

### 6. Private placement borrowings

The first private placement senior unsecured notes were issued, to a range of institutional investors, in December 2003. These fixed rate notes were issued in US dollars and sterling and at 30 June 2014 comprise US\$626.5 million, maturing on dates between 2015 and 2023, and Stg£20.0 million, maturing on dates between 2018 and 2023.

The second private placement senior unsecured notes were issued in June 2009. These notes were issued in US dollars, sterling and euro and at 30 June 2014 comprise US\$253.0 million, maturing on dates between 2016 and 2019, Stg£85.0 million maturing on dates between 2017 and 2021 and €40.0 million maturing in 2019. US\$33.0 million and €10.0 million of this private placement debt was repaid in June 2014 as scheduled.

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants. To date ESB has complied with all the covenant requirements associated with the private placement debt and other facilities.

### 7. Non-recourse short-term project finance debt

Short-term private equity funding of Stg£8.4 million had been drawn down at 30 June 2014. This is in relation to the financing of certain clean energy infrastructure acquisitions.

### Hedge of net investment in foreign operations

Included in borrowings above are sterling denominated bank loans, which have been designated as a hedge of the Group's investment in a sterling denominated subsidiary in the United Kingdom, as outlined below.

| Sterling denominated loans designated as a hedge of Group's investment in subsidiary | June 2014<br>€ '000 | June 2013<br>€ '000 |
|--|---------------------|---------------------|
| Value at 1 January   | 80,042              | 93,456              |
| Repayments in period   | (5,794)             | (5,565)             |
| Loss / (gain) on translation to Euro   | 3,074               | (4,481)             |
| Value at 30 June   | <b>77,322</b>       | 83,410              |
| Gain / (loss) on translation of intragroup Euro loan to subsidiary (taken to OCI)    | <b>2,240</b>        | (3,291)             |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 20. BORROWINGS AND OTHER DEBT (continued)

### (b) Funding and liquidity management

The principal liquidity risks faced by the Group relate to cash flow requirements arising from day-to-day operations, maturing debt obligations and the funding of capital investment programmes. The Group's treasury function manages this risk through a combination of liquid investments, cash and cash equivalents and undrawn committed bank facilities. The Group negotiates facilities with relationship banks and debt capital markets to pre-fund any requirements arising from maturing debt and capital expenditure.

At 30 June 2014 the Group had €1,747.7 million available in cash or cash equivalents and committed bank facilities, ensuring liquidity demands can be met as required. The committed bank facilities include a syndicated loan facility with a large number of well-rated financial institutions as well as facilities with the EIB. Included in the amount disclosed are facilities totalling €100.0 million which may only be drawn against certain scheduled capital expenditure.

The Group's debt management strategy targets a debt portfolio profile with a diverse mix of counterparties, funding sources and maturities. Structured non-recourse and limited recourse financing is used where appropriate, taking into account the compatibility between funding costs and risk mitigation. All borrowing facilities are in compliance with the Electricity Acts and relevant regulatory requirements.

The maturity profile of the carrying amount of the Group's borrowings, and the expiry of material undrawn committed bank borrowing facilities are as follows:

| Maturing                   | 30 June 2014     |                  | 31 December 2013 |              |
|----------------------------|------------------|------------------|------------------|--------------|
|                            | Drawn Debt       | Undrawn Debt     | Drawn Debt       | Undrawn Debt |
|                            | € '000           | € '000           | € '000           | € '000       |
| In one year or less        | 113,256          | -                | 121,992          | -            |
| Between one and two years  | 303,462          | 100,000          | 313,952          | 100,000      |
| Between two and five years | 1,478,551        | 1,374,298        | 1,267,803        | 1,387,000    |
| In more than five years    | 2,764,772        | -                | 2,811,649        | -            |
|                            | <b>4,660,041</b> | <b>1,474,298</b> | 4,515,396        | 1,487,000    |

### (c) Interest rate risk management

The Group's interest rate policy was updated in 2013 and is to target to have a significant majority of its debt at fixed (or inflation linked) interest rate to maturity, with a minimum of 50% fixed (or inflation linked) at all times. This is achieved either by borrowing directly at fixed interest rates or via interest rate swaps. At 30 June 2014, 95% of the Group's debt was fixed to maturity or inflation linked (31 December 2013: 95%). The fair value of interest rate swaps is disclosed in note 21.

In respect of income-earning financial liabilities, the following table indicates their effective interest rates at the balance sheet date taking into account the effect of interest rate swaps and cross currency swaps:

|   | Effective interest rate % | Total € '000 | Within 1 year € '000 | 1-2 years € '000 | 2-5 years € '000 | More than 5 years € '000 |
|---|---------------------------|--------------|----------------------|------------------|------------------|--------------------------|
| Private placement borrowings (fixed interest rate)            | 6.1%                      | 814,950      | -                    | 207,571          | 332,270          | 275,109                  |
| Non-recourse borrowings (fixed interest rate)                 | 6.1%                      | 1,110,493    | 12,497               | 4,224            | 279,862          | 813,910                  |
| Other long-term borrowings (fixed and variable interest rate) | 6.1%                      | 2,734,598    | 61,705               | 130,721          | 866,419          | 1,675,753                |

Included within other long term borrowings in this analysis are floating rate liabilities of €221.9 million (31 December 2013: €240.5 million).

The effective interest rate on the private placement borrowings has been fixed through the use of cross currency swaps and interest rate swaps. The effective rate of non-recourse sterling borrowings of Stg £275.5 million has been fixed using interest rate swaps. In the absence of these interest rate swaps, the floating rate on the underlying sterling and euro borrowings at 30 June 2014 would be 3.3%, in line with prevailing interest rates in those monetary areas on borrowings of a similar duration. Inflation linked swaps are included at equivalent nominal interest rate levels.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

### Fair value by class of derivative financial instrument

Derivative financial instruments are carried at fair value. The fair value of a derivative financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The method used to calculate the fair value of the Group's financial instruments is discounted cash flow analysis, using a zero coupon discount rate. This method enables the Group to discount the cash flows at a rate equal to the prevailing market rate of interest taking into account maturity and credit margin.

The fair values of financial instruments, grouped by class of instrument, are as follows:

|                                      |                                 |                             | June 2014                            |                                  | Total<br>€ '000  |
|--------------------------------------|---------------------------------|-----------------------------|--------------------------------------|----------------------------------|------------------|
|                                      | Non-current<br>assets<br>€ '000 | Current<br>Assets<br>€ '000 | Non-current<br>liabilities<br>€ '000 | Current<br>liabilities<br>€ '000 |                  |
| Interest rate swaps                  | 12,041                          | -                           | (24,445)                             | -                                | (12,404)         |
| Inflation linked interest rate swaps | -                               | -                           | (504,046)                            | (14,810)                         | (518,856)        |
| Currency swaps                       | -                               | 551                         | (123,818)                            | -                                | (123,267)        |
| Foreign exchange contracts           | 6,090                           | 11,658                      | (13,691)                             | (14,250)                         | (10,193)         |
| Forward fuel price contracts         | 137,213                         | 35,636                      | (36,163)                             | (53,110)                         | 83,576           |
| Forward electricity price contracts  | 122,983                         | 69,112                      | -                                    | -                                | 192,095          |
|                                      | <b>278,327</b>                  | <b>116,957</b>              | <b>(702,163)</b>                     | <b>(82,170)</b>                  | <b>(389,049)</b> |

|                                      |                                 |                             | December 2013                        |                                  | Total<br>€ '000  |
|--------------------------------------|---------------------------------|-----------------------------|--------------------------------------|----------------------------------|------------------|
|                                      | Non-current<br>assets<br>€ '000 | Current<br>Assets<br>€ '000 | Non-current<br>liabilities<br>€ '000 | Current<br>liabilities<br>€ '000 |                  |
| Interest rate swaps                  | 23,934                          | -                           | (29,525)                             | -                                | (5,591)          |
| Inflation linked interest rate swaps | -                               | -                           | (452,132)                            | (13,458)                         | (465,590)        |
| Currency swaps                       | 497                             | 517                         | (130,213)                            | -                                | (129,199)        |
| Foreign exchange contracts           | 6,818                           | 7,264                       | (7,601)                              | (2,837)                          | 3,644            |
| Forward fuel price contracts         | 190,858                         | 58,393                      | (17,835)                             | (37,732)                         | 193,684          |
| Forward electricity price contracts  | 131,448                         | 28,034                      | -                                    | -                                | 159,482          |
|                                      | <b>353,555</b>                  | <b>94,208</b>               | <b>(637,306)</b>                     | <b>(54,027)</b>                  | <b>(243,570)</b> |

With the exception of inflation linked interest rate swaps, the great majority of the derivative balances shown in the tables above are designated as cash flow hedges of interest rate, currency or commodity risk arising from highly probable forecast interest, revenue, or other operating cost cash flows.

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The interest rate used to discount future estimated cash flows was 1.75% (year ended 31 December 2013: 1.82%). The rate is based on the EURIBOR yield curve at the reporting date.

### (i) Interest rate swaps

For interest rate swaps, the fair value takes into account the fixed, floating and market rates prevailing at the balance sheet date. As interest rate swaps are marked to market at 30 June 2014, their carrying value is equal to their fair value.

Total fair value losses of €6.8 million were recognised during the six month period to 30 June 2014 (30 June 2013: gains of €10.3 million) in relation to interest rate swaps, of which gains of €5.1 million were recognised directly in finance costs in the income statement with losses of €1.9 million recognised in OCI (30 June 2013: loss of €13.1 million recognised in finance costs and gain of €23.3 million recognised in the OCI).

Interest rate swaps of Stg\$420.0 million were executed during 2012, which fixed the interest rate on project finance secured by Carrington Power Limited (CPL). These form part of an effective hedging relationship.

Further interest rate swaps of Stg\$365.0 million were executed during 2012 in relation to fixed rate borrowings held by the Parent and ESB Finance Limited, to match the debt with the RPI interest rate swaps which hedge floating rate debt. Hedge accounting was not applied to these derivatives.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Fair value by class of derivative financial instrument (continued)

#### (ii) Inflation linked interest rate swaps

Inflation linked interest rate swaps with a fair value on acquisition of €272.5 million were acquired in December 2010 as part of the purchase of the NIE business. The inflation linked interest rate swaps did not qualify for hedge accounting under IAS 39 on acquisition of the NIE business.

The fair value of the inflation linked interest rate swaps is affected by relative movements in interest rates and in market expectations of future retail price index (RPI) movements in the United Kingdom.

During the six month period to 30 June 2014 the Group, and its counterparty banks, together agreed a restructuring of the swaps, including amendments to certain critical terms. These changes included an extension of the mandatory break period in the swaps from 2015 to 2022, immediate settlement in 2014 of accrued accretion payments of €90.1 million (previously due for payment in 2015), amendments to the fixed interest rate element of the swaps, and an expansion in the number of swap counterparties. Future accretion payments are now scheduled to occur every 5 years, starting in 2018, with remaining accretion paid at maturity.

Arising from these changes and the accretion payments, negative fair value movements of €128.8 million arose on the swaps in the six months ended 30 June 2014 (30 June 2013: negative fair value movements of €9.2 million). These were recognised within finance costs in the income statement, as hedge accounting was not available.

#### (iii) Currency swaps

The fair value of currency swaps is affected by movements in foreign exchange and interest rates. ESB's currency swaps are primarily classified as cash flow hedges and relate mainly to the cross currency swaps entered into in connection with the private placement debt, which is described in note 20. These cross currency swaps were entered into in order to swap US dollar and sterling interest and principal repayments on the underlying debt to euro, thereby hedging the risk on these payments over the periods to maturity up to 2023. Included in the income statement for the six month period to 30 June 2014 is a gain of €6.2 million (30 June 2013: gain of €6.8 million) arising on cross currency swaps which is fully offset by movements in the translation of the underlying hedged foreign currency borrowings at the prevailing exchange rates (see note 8).

In addition to foreign currency forward contracts entered into in relation to the Group's borrowings, the Group has entered into foreign currency contracts in relation to pool purchases, fuel purchase requirements (which are in US dollars and pound sterling) and in relation to power station projects (including Carrington Power Limited). These contracts have maturities extending until 2022. Total negative fair value movements of €13.8 million were recognised in the six month period to 30 June 2014 (30 June 2013: positive movements of €4.7 million) in relation to such foreign exchange contracts, of which a negative fair value movement of €14.6 million (30 June 2013: positive movements of €7.1 million) were recognised through other comprehensive income and a positive fair value movement of €0.8 million (30 June 2013: negative movements of €2.4 million) was recognised in the income statement.

#### (iv) Fair Value Hierarchy

Further information on the methods of valuing financial instruments is included in note 27.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 22. PENSION LIABILITY - NIE SCHEME

#### Northern Ireland Electricity Pension Scheme

|   | June 2014<br>€ '000 | June 2013<br>€ '000 |
|---|---------------------|---------------------|
| <b>Net deficit at 1 January</b>                     | <b>(109,666)</b>    | (132,524)           |
| Movements during the period:                        |                     |                     |
| Actuarial gains recognised in OCI during the period | <b>1,429</b>        | 11,585              |
| Charge to the income statement                      | <b>(5,667)</b>      | (5,509)             |
| Pension contributions paid                          | <b>14,625</b>       | 14,157              |
| Net pension scheme interest                         | <b>(2,255)</b>      | (2,388)             |
| Translation differences                             | <b>(4,173)</b>      | 6,176               |
| Transfer to assets held for sale                    | -                   | (3,470)             |
| <b>Net deficit at 30 June</b>                       | <b>(105,707)</b>    | (111,973)           |

#### Pension liability

The majority of the employees of Northern Ireland Electricity Limited and subsidiaries ('NIE') are members of the Northern Ireland Electricity Pension Scheme ('the NIE Scheme'). This has two sections: 'Options', which is a money purchase arrangement whereby the employer generally matches the members' contributions up to a maximum of 6% of salary, and 'Focus' which provides benefits based on pensionable salary at retirement or earlier exit from service. The assets of the NIE Scheme are held under trust and invested by the trustees on the advice of professional investment managers.

The actuarial gain for the period arises due to a higher return on scheme assets and a decrease in the discount rate used to value the scheme liabilities to 4.2% at 30 June 2014, from 4.4% at 31 December 2013. This is offset in part by a decrease in the inflation rate assumption used to value scheme liabilities to 2.1% at 30 June 2014, from 2.3% at 31 December 2013.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 23. LIABILITY- ESB PENSION SCHEME AND EMPLOYEE RELATED LIABILITIES

|                                  | Liability-<br>ESB pension<br>scheme<br>€'000 | Employee related liabilities          |                | Total<br>€'000  |
|----------------------------------|--|---------------------------------------|----------------|-----------------|
|                                  |  | Restructuring<br>liabilities<br>€'000 | Other<br>€'000 |                 |
| <b>Balance at 1 January 2013</b> | <b>814,767</b>                               | 182,704                               | 30,801         | <b>213,505</b>  |
| Movements during the period:     |  |                                       |                |                 |
| Charge to the income statement   | -  | -                                     | 7,730          | <b>7,730</b>    |
| Utilised during the period       | <b>(34,538)</b>                              | (24,759)                              | (13,475)       | <b>(38,234)</b> |
| Financing charge                 | <b>18,096</b>                                | 1,963                                 | -              | <b>1,963</b>    |
| Translation differences          | -  | (11)                                  | (23)           | <b>(34)</b>     |
| <b>Balance at 30 June 2013</b>   | <b>798,325</b>                               | 159,897                               | 25,033         | <b>184,930</b>  |
| <b>Balance at 1 January 2014</b> | <b>766,228</b>                               | 152,271                               | 30,500         | <b>182,771</b>  |
| Movements during the period:     |  |                                       |                |                 |
| Charge to the income statement   | -  | -                                     | 4,421          | <b>4,421</b>    |
| Utilised during the period       | <b>(7,090)</b>                               | (11,007)                              | (6,861)        | <b>(17,868)</b> |
| Financing charge                 | <b>17,340</b>                                | 1,214                                 | -              | <b>1,214</b>    |
| Translation differences          | -  | 9                                     | 12             | <b>21</b>       |
| <b>Balance at 30 June 2014</b>   | <b>776,478</b>                               | <b>142,487</b>                        | <b>28,072</b>  | <b>170,559</b>  |
| <b>Analysed as follows:</b>      |  |                                       |                |                 |
| Non-current liabilities          | <b>699,832</b>                               | 116,752                               | -              | <b>116,752</b>  |
| Current liabilities              | <b>76,646</b>                                | 25,735                                | 28,072         | <b>53,807</b>   |
| <b>Total</b>                     | <b>776,478</b>                               | <b>142,487</b>                        | <b>28,072</b>  | <b>170,559</b>  |

### Liability - ESB pension scheme

During 2010 the company reached agreement with the ESB Group of Unions to amend pension arrangements within the company and this is explained in note 21 to the Financial Statements in the ESB Annual Report 2013.

### Restructuring liabilities

This provision represents the estimated cost of providing post employment payments to former employees, other than those amounts covered by the pension scheme. It includes liabilities for continuing payments to employees who left under past voluntary severance initiatives, as well as liabilities in respect of former employees which may arise as part of other potential legal or constructive post retirement obligations. These liabilities are expected to be materially discharged by 2027. Expected future cashflows are discounted to present value using long-term interest rates based on a zero coupon discount curve at the reporting date plus an appropriate credit spread.

### Other

In accordance with the requirements of IAS 19 Employee Benefits, provision has been made for employee remuneration liabilities, including accrued holiday leave, bonuses and profit share arrangements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 24. TRADE AND OTHER PAYABLES

|                                       | June<br>2014<br>€ '000 | December<br>2013<br>€ '000 |
|---------------------------------------|------------------------|----------------------------|
| <b>Current payables:</b>              |                        |                            |
| Progress payments on work in progress | 42,943                 | 49,825                     |
| Trade payables                        | 335,345                | 354,301                    |
| Other payables                        | 26,784                 | 26,687                     |
| Employment taxes                      | 23,358                 | 16,559                     |
| Value added tax                       | 40,892                 | 50,395                     |
| Accruals                              | 74,946                 | 110,335                    |
| Accrued interest on borrowings        | 84,940                 | 67,309                     |
|                                       | <b>629,208</b>         | 675,411                    |

## 25. DEFERRED INCOME AND GOVERNMENT GRANTS

|                                  | Emissions<br>allowances<br>€ '000 | Supply<br>contributions<br>and other<br>€ '000 | Total<br>€ '000 |
|----------------------------------|-----------------------------------|--|-----------------|
| <b>Balance at 1 January 2013</b> | 12,097                            | 629,986  | <b>642,083</b>  |
| Receivable                       | -                                 | 7,887  | <b>7,887</b>    |
| Released to income statement     | (11,047)                          | (20,488)                                       | <b>(31,535)</b> |
| Translation differences          | (229)                             | -  | <b>(229)</b>    |
| <b>Balance at 30 June 2013</b>   | 821                               | 617,385  | <b>618,206</b>  |
| <b>Balance at 1 January 2014</b> | -                                 | 608,320  | <b>608,320</b>  |
| Receivable                       | -                                 | 3,468  | <b>3,468</b>    |
| Released to income statement     | -                                 | (18,343)                                       | <b>(18,343)</b> |
| Translation differences          | -                                 | 295  | <b>295</b>      |
| <b>Balance at 30 June 2014</b>   | -                                 | <b>593,740</b>                                 | <b>593,740</b>  |
| <b>Analysed as follows:</b>      |                                   |  |                 |
| Non-current liabilities          | -                                 | 546,321  | <b>546,321</b>  |
| Current liabilities              | -                                 | 47,419   | <b>47,419</b>   |
| <b>Total</b>                     | -                                 | <b>593,740</b>                                 | <b>593,740</b>  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 26. PROVISIONS

|  | Power station<br>closure costs<br>€ '000 | Emissions<br>provisions<br>€ '000 | Other<br>€ '000 | Total<br>€ '000 |
|--|--|-----------------------------------|-----------------|-----------------|
| <b>Balance at 1 January 2013</b>                             | 142,064                                  | 77,215                            | 56,038          | <b>275,317</b>  |
| Charged / (credited) to the income statement                 |  |                                   |                 |                 |
| - Emissions  | -  | 39,654                            | -               | <b>39,654</b>   |
| - Legal  | -  | -                                 | 2,225           | <b>2,225</b>    |
| Utilised in the period                                       | (4,376)                                  | (80,274)                          | (1,971)         | <b>(86,621)</b> |
| Financing charge   | 1,776                                    | -                                 | 555             | <b>2,331</b>    |
| Translation differences                                      | (116)                                    | (369)                             | (503)           | <b>(988)</b>    |
| Transfer of liabilities associated with assets held for sale | -  | -                                 | (73)            | <b>(73)</b>     |
| <b>Balance at 30 June 2013</b>                               | <b>139,348</b>                           | <b>36,226</b>                     | <b>56,271</b>   | <b>231,845</b>  |
| <b>Balance at 1 January 2014</b>                             | 139,004                                  | 63,958                            | 56,776          | <b>259,738</b>  |
| Charged / (credited) to the income statement                 |  |                                   |                 |                 |
| - Emissions  | -  | 17,198                            | -               | <b>17,198</b>   |
| - Legal  | -  | -                                 | 1,660           | <b>1,660</b>    |
| Utilised in the period                                       | (3,388)                                  | (60,010)                          | (1,691)         | <b>(65,089)</b> |
| Financing charge   | 1,793                                    | -                                 | 476             | <b>2,269</b>    |
| Translation differences                                      | 98                                       | 82                                | 488             | <b>668</b>      |
| <b>Balance at 30 June 2014</b>                               | <b>137,507</b>                           | <b>21,228</b>                     | <b>57,709</b>   | <b>216,444</b>  |
| <b>Analysed as follows:</b>                                  |  |                                   |                 |                 |
| Non-current liabilities                                      | 130,911                                  | -                                 | 52,706          | <b>183,617</b>  |
| Current liabilities  | 6,596                                    | 21,228                            | 5,003           | <b>32,827</b>   |
| <b>Total</b>   | <b>137,507</b>                           | <b>21,228</b>                     | <b>57,709</b>   | <b>216,444</b>  |

### Power station closure costs

The provision at 30 June 2014 of €137.5 million (31 December 2013: €139.0 million) for station closure represents the present value of the current estimate of the costs of closure of generating stations at the end of their useful economic lives. The expected closure dates of most generating stations are up to 2020. As the costs are provided on a discounted basis, a financing charge is included in the income statement and added to the provision each year. The power station closure provision is re-examined annually and the liability re-calculated in accordance with the current expected station closure dates. Closure costs include physical dismantling costs and costs associated with de-manning the stations on closure.

There are a number of uncertainties that affect the calculation of the provision for station closure, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision.

### Emissions provisions

In accordance with the provisions of the European CO<sub>2</sub> Emissions Trading Scheme, a provision is recognised to cover the liability for actual emissions during the year. Any allowances purchased during the year, are returned to the relevant Authority in charge of the Scheme within four months from the end of that calendar year, in line with the actual emissions of CO<sub>2</sub> during the year. The period end provision represents the obligation to return emissions allowances equal to the actual emissions. This obligation is measured at the carrying amount of the capitalised CO<sub>2</sub> emissions allowances, in addition to the market value of any additional allowances required to settle the year end liability.

### Other

Other provisions represent prudent estimates of liabilities that may or may not arise, to third parties, in respect of claims notified or provided for at period end. In accordance with normal commercial practice, the period end provision includes an estimate for liabilities incurred but not yet notified.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

### (a) Overview of financial risk management

#### Risk environment

The main financial risks faced by the Group relate to liquidity, foreign exchange, interest rate, commodity (electricity and fuel) price movements and operational risk. Policies to reduce the Group's exposure to these risks, and other risk areas, such as credit risk, are regularly reviewed, revised and approved by the Board as appropriate. Group Treasury is responsible for the day to day treasury activities of the Group. The Board Finance Committee is updated on an ongoing basis on key treasury matters and an annual report covering the treasury activity is also submitted to the Committee for review.

Commodity price risk is managed by the Front and Middle Office functions of the relevant business units: ESB Trading (located within ESB Generation and Wholesale Markets) and Electric Ireland. This is done in the context of an overall Group risk management framework. These activities are reviewed regularly by Group Internal Audit. The Group Trading Risk Management function ensures that the Group's market, credit and operational risks are managed in a way to protect the Group from loss, while respecting the ring-fencing obligations in place between the business units.

Contracts entered into in order to hedge exposures arising from the production and sale of electricity may be divided into forward fuel price contracts, forward electricity price contracts and foreign exchange contracts. Financial instruments are derecognised on settlement or sale.

#### Risk reporting structure

Through the Chief Executive, the Board has delegated to the Group Trading Committee (GTC) the broader responsibility of managing ESB's trading risk in a manner consistent with the Group's risk tolerance and business strategies. The GTC has established risk limits to manage and limit trading risk exposure at Group and business unit level. These limits are documented for each of the ESB businesses engaged in wholesale trading activities. Furthermore the Group Trading Risk Management Policy is applicable to each of these businesses.

Within each of these business units, a Trading Risk Management Committee has been established to serve as the primary overseer of trading risk at individual ring-fenced entity level. This committee includes the head of the Front Office function, the Trading Risk (Middle Office) Manager, a representative from Group Trading Risk Management, and the business unit Financial Controller. The Trading Risk Management Committees are responsible for formulating trading risk strategy in accordance with the Group Trading Risk Management Policy and ensuring compliance with same, trading risk limit management and ensuring that there is an effective control framework in place.

The Trading Risk Management Committees report to the GTC. The Middle Office function in each business unit maintains a separate reporting line to the Group Trading Risk Management function, which is responsible for ensuring that the Group's net exposure to movements in commodity or other price movements is adequately managed in accordance with Group Trading Risk Management Policy. The trading operations of the business units are subject to review by Group Internal Audit.

#### Hedge accounting

ESB funds its operations using borrowings and uses deposit instruments to invest surplus funds and uses interest rate and foreign currency instruments to manage interest rate and currency risks that arise in the normal course of operations from US dollar and Sterling denominated borrowings, from its foreign currency subsidiaries, and from the use of foreign currency suppliers. Hedge accounting pursuant to IAS 39 is used both for hedges of foreign currency liabilities and interest rate risks from current and non-current liabilities.

In addition, the Group enters into certain commodity hedging transactions to fix fuel costs and to link electricity revenues more closely to fuel inputs, where possible. All of these arrangements are designated into hedge relationships, and in the great majority of cases meet the specific hedging accounting criteria of IAS 39. Where the IAS 39 hedge criteria are met in respect of cross currency swaps, interest rate swaps, foreign exchange contracts, forward fuel price contracts and forward electricity price contracts, all of these instruments are designated as cash flow hedges of highly probable forecast interest, revenue or other operating cost cash flows. Any derivatives on hand which are not specifically designated into hedge relationships from an accounting perspective are nevertheless regarded as valid economic hedges.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (b) Overview of financial assets and liabilities

Financial assets and liabilities, excluding provisions and employee related liabilities, at 30 June 2014, and at 31 December 2013 can be analysed as follows:

|  | Financial assets at fair value through profit or loss |                        | Assets / (liabilities) held at amortised cost |                        | Derivative financial instruments with hedging relationships |                        | Derivative financial instruments with no hedging relationships |                        | Total              |                        |
|--|---|------------------------|---|------------------------|---|------------------------|--|------------------------|--------------------|------------------------|
|  | June 2014<br>€'000                                    | December 2013<br>€'000 | June 2014<br>€'000                            | December 2013<br>€'000 | June 2014<br>€'000  | December 2013<br>€'000 | June 2014<br>€'000   | December 2013<br>€'000 | June 2014<br>€'000 | December 2013<br>€'000 |
| <b>Assets</b>                                  |   |                        |   |                        |   |                        |  |                        |                    |                        |
| <b>Non-current assets</b>                      |   |                        |   |                        |   |                        |  |                        |                    |                        |
| Financial asset investments                    | 57,551  | 49,359                 | -   | -                      | -   | -                      | -  | -                      | 57,551             | 49,359                 |
| Derivative financial instruments               | -   | -                      | -   | -                      | 263,413   | 353,137                | 14,914   | 418                    | 278,327            | 353,555                |
| <b>Total non-current financial assets</b>      | <b>57,551</b>   | <b>49,359</b>          | <b>-</b>                                      | <b>-</b>               | <b>263,413</b>  | <b>353,137</b>         | <b>14,914</b>  | <b>418</b>             | <b>335,878</b>     | <b>402,914</b>         |
| <b>Current assets</b>                          |   |                        |   |                        |   |                        |  |                        |                    |                        |
| Trade and other receivables                    | -   | -                      | 761,993                                       | 899,223                | -   | -                      | -  | -                      | 761,993            | 899,223                |
| Cash and cash equivalents                      | -   | -                      | 273,272                                       | 370,848                | -   | -                      | -  | -                      | 273,272            | 370,848                |
| Derivative financial instruments               | -   | -                      | -   | -                      | 77,960  | 91,740                 | 38,997   | 2,468                  | 116,957            | 94,208                 |
| <b>Total current financial assets</b>          | <b>-</b>  | <b>-</b>               | <b>1,035,265</b>                              | <b>1,270,071</b>       | <b>77,960</b>   | <b>91,740</b>          | <b>38,997</b>  | <b>2,468</b>           | <b>1,152,222</b>   | <b>1,364,279</b>       |
| <b>Total financial assets</b>                  | <b>57,551</b>   | <b>49,359</b>          | <b>1,035,265</b>                              | <b>1,270,071</b>       | <b>341,373</b>  | <b>444,877</b>         | <b>53,911</b>  | <b>2,886</b>           | <b>1,488,100</b>   | <b>1,767,193</b>       |
| <b>Liabilities</b>                             |   |                        |   |                        |   |                        |  |                        |                    |                        |
| <b>Non-current liabilities</b>                 |   |                        |   |                        |   |                        |  |                        |                    |                        |
| Borrowings and other debt                      | -   | -                      | 4,546,785                                     | 4,393,404              | -   | -                      | -  | -                      | 4,546,785          | 4,393,404              |
| Trade and other payables                       | -   | -                      | -   | -                      | -   | -                      | -  | -                      | -                  | -                      |
| Derivative financial instruments               | -   | -                      | -   | -                      | 167,989   | 155,585                | 534,174  | 481,721                | 702,163            | 637,306                |
| <b>Total non-current financial liabilities</b> | <b>-</b>  | <b>-</b>               | <b>4,546,785</b>                              | <b>4,393,404</b>       | <b>167,989</b>  | <b>155,585</b>         | <b>534,174</b>   | <b>481,721</b>         | <b>5,248,948</b>   | <b>5,030,710</b>       |
| <b>Current liabilities</b>                     |   |                        |   |                        |   |                        |  |                        |                    |                        |
| Borrowings and other debt                      | -   | -                      | 113,256                                       | 121,992                | -   | -                      | -  | -                      | 113,256            | 121,992                |
| Trade and other payables                       | -   | -                      | 629,208                                       | 675,411                | -   | -                      | -  | -                      | 629,208            | 675,411                |
| Derivative financial instruments               | -   | -                      | -   | -                      | 60,608  | 39,909                 | 21,562   | 14,118                 | 82,170             | 54,027                 |
| <b>Total current financial liabilities</b>     | <b>-</b>  | <b>-</b>               | <b>742,464</b>                                | <b>797,403</b>         | <b>60,608</b>   | <b>39,909</b>          | <b>21,562</b>  | <b>14,118</b>          | <b>824,634</b>     | <b>851,430</b>         |
| <b>Total financial liabilities</b>             | <b>-</b>  | <b>-</b>               | <b>5,289,249</b>                              | <b>5,190,807</b>       | <b>228,597</b>  | <b>195,494</b>         | <b>555,736</b>   | <b>495,839</b>         | <b>6,073,582</b>   | <b>5,882,140</b>       |

### (c) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

| Financial assets                 | 30 June 2014<br>€'000 | 31 December 2013<br>€'000 |
|----------------------------------|-----------------------|---------------------------|
| Trade and other receivables      | 761,993               | 899,223                   |
| Financial asset investments      | 57,551                | 49,359                    |
| Cash and cash equivalents        | 273,272               | 370,848                   |
| Derivative financial instruments | 395,284               | 447,763                   |
|                                  | <b>1,488,100</b>      | <b>1,767,193</b>          |

#### Trade and other receivables

Wholesale and credit risk arising from trade and other receivables has been disclosed in Note 14 of the most recent Annual Report, and has not changed significantly since.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (d) Funding and liquidity management

#### Financial asset investments

Credit risk arising on financial asset investments, including financial assets at fair value through profit or loss, is closely monitored and reflected in the carrying value at year end.

#### Treasury related credit risk (relating to cash and derivative instruments)

The Group is exposed to credit risk from the counterparties with whom it holds its bank accounts and transacts within the financial markets. The Group's policy is to limit its exposure to each financial institution based on accepted credit ratings of not less than BBB or equivalent.

Trading in derivatives is performed to mitigate financial risks and is executed in compliance with the Specification and Requirements of the Minister for Finance issued under the aegis of the "Financial Transactions of Certain Companies and Other Bodies Act 1992". The Specification and Requirements outline the type of derivatives which ESB can transact and the associated requirements which ESB must satisfy regarding each derivative counterparty. Dealing activities are controlled by putting in place robust dealing mandates with counterparties. The Group does not hold or trade derivative instruments for speculative purposes. Exposures, related limits and compliance with the Minister's Specification and Requirements are subject to ongoing review and monitoring. The Group has not experienced any losses due to failure of such counterparties to deliver on their obligations.

#### Commodity credit risk (relating to derivatives)

The Group also has credit risk associated with commodity positions. These arise from derivative financial instruments that are entered into to hedge energy and fuel price risks and are managed in accordance with the Minister's Specification and Requirements ("Financial Transactions of Certain Companies and Other Bodies Act 1992"). The Group establishes counterparty credit risk limits to restrict uncollateralised exposure. Net exposures, collateral requirements and compliance are monitored on an ongoing basis. Collateral, in the form of bonds and guarantees, is required by ESB business units from various parties, specifically in the form of Letters of Credit from certain power Contract for Differences (CfD) counterparties. Total collateral held at period end was €263.1 million (31 December 2013: €258.1 million). Given the current economic environment, the Group is particularly cognisant of any changes in the creditworthiness of counterparties, and where such a change occurs all appropriate steps are taken to further secure the Group's position.

### (e) Foreign currency risk management

Foreign currency exposures arise mainly through the purchase of fuel and power, station overhaul costs required, other purchases denominated in foreign currencies, borrowings in foreign currencies (including the private placement as described in note 20) and investments outside the eurozone.

Foreign currency forward purchase contracts and cross currency swaps are used to reduce volatility arising from foreign currency exposures. The foreign currency forward purchase contracts in place at 30 June 2014 relate to forecast cash flows expected to occur up to 15 December 2023.

At six month period ended 30 June 2014, ESB's total debt portfolio amounted to €4.7 billion (31 December 2013: €4.5 billion). The underlying debt, before and after swaps, was denominated in the following currencies:

|                 | Before swaps           |                            | After swaps            |                            |
|-----------------|------------------------|----------------------------|------------------------|----------------------------|
|                 | 30 June<br>2014<br>(%) | 31 December<br>2013<br>(%) | 30 June<br>2014<br>(%) | 31 December<br>2013<br>(%) |
| <b>Currency</b> |                        |                            |                        |                            |
| Euro            | 46%                    | 50%                        | 60%                    | 66%                        |
| US Dollar       | 14%                    | 15%                        | 0%                     | 0%                         |
| Sterling        | 40%                    | 35%                        | 40%                    | 34%                        |
| <b>Total</b>    | <b>100%</b>            | 100%                       | <b>100%</b>            | 100%                       |

The key exchange rates used at the 30 June 2014 and 31 December 2013 were as follows:

|                                   | 30 June<br>2014 | 31 December<br>2013 |
|-----------------------------------|-----------------|---------------------|
| Foreign currency rate (€1 = US\$) | 1.3658          | 1.3791              |
| Foreign currency rate (€1 = Stg£) | 0.8015          | 0.8337              |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (f) Fair value

The fair values of financial assets and liabilities carried at amortised cost together with the carrying amounts shown in the balance sheet are as follows:

|                             | 30 June 2014             |                      | 31 December 2013         |                      |
|-----------------------------|--------------------------|----------------------|--------------------------|----------------------|
|                             | Carrying value<br>€ '000 | Fair value<br>€ '000 | Carrying value<br>€ '000 | Fair value<br>€ '000 |
| Long term debt              | 4,546,785                | 5,023,902            | 4,393,404                | 4,811,684            |
| Short term borrowings       | 113,256                  | 124,834              | 121,992                  | 135,471              |
| <b>Total borrowings</b>     | <b>4,660,041</b>         | <b>5,148,736</b>     | 4,515,396                | 4,947,155            |
| Trade and other payables    | 629,208                  | 629,208              | 675,411                  | 675,411              |
| Trade and other receivables | 761,993                  | 761,993              | (899,223)                | (899,223)            |
| Cash and cash equivalents   | (273,272)                | (273,272)            | (370,848)                | (370,848)            |
| <b>Net liabilities</b>      | <b>4,253,984</b>         | <b>4,742,679</b>     | 3,920,736                | 4,352,495            |

As trade and other receivables are all due within one year, and have been provided for where impaired, their carrying value is considered to be materially in line with their fair value. The carrying values of trade and other payables and cash and cash equivalents are a reasonable approximation of their fair values.

Borrowings and other debt are level 2 fair values. The valuation technique used for borrowings and other debt is a comparison of debt stock to the marginal cost of debt (from main funding markets) in addition to discounting using the zero coupon discount curve of the relevant currency.

### Fair value - discount rates

The interest rates used to discount future estimated cash flows, where applicable, are based on the EURIBOR yield curve at the reporting date plus an appropriate constant credit spread, and were as follows:

|                                  | 30 June 2014<br>% | 31 December 2013<br>% |
|----------------------------------|-------------------|-----------------------|
| Other loans and borrowings       | 3.3%              | 3.3%                  |
| Derivative financial instruments | 1.7%              | 1.8%                  |
| Trade and other payables         | 1.9%              | 2.0%                  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (g) Fair value hierarchy

The table below analyses financial assets and liabilities carried at fair value, by valuation method. The different levels relevant to financial assets and liabilities held by the Group have been defined as follows:

- Level 2: inputs, other than unadjusted quoted prices in active markets for identical assets and liabilities, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 30 June 2014

|   | Level 2<br>€ '000 | Level 3<br>€ '000 | Total<br>€ '000  |
|---|-------------------|-------------------|------------------|
| <b>Assets</b>   |                   |                   |                  |
| Derivative financial instruments:                     |                   |                   |                  |
| Currency swaps  | 551               | -                 | 551              |
| Foreign exchange contracts                            | 17,748            | -                 | 17,748           |
| Forward fuel price contracts                          | 9,320             | 163,529           | 172,849          |
| Forward electricity price contracts                   | 44,968            | 147,127           | 192,095          |
| Interest rate swaps                                   | 12,041            | -                 | 12,041           |
| Financial assets at fair value through profit or loss | -                 | 56,983            | 56,983           |
|   | <b>84,628</b>     | <b>367,639</b>    | <b>452,267</b>   |
| <b>Liabilities</b>                                    |                   |                   |                  |
| Derivative financial instruments:                     |                   |                   |                  |
| Currency swaps  | 123,818           | -                 | 123,818          |
| Foreign exchange contracts                            | 27,941            | -                 | 27,941           |
| Forward fuel price contracts                          | 79,926            | 9,347             | 89,273           |
| Interest rate swaps                                   | 24,445            | -                 | 24,445           |
| Inflation linked interest rate swaps                  | 518,856           | -                 | 518,856          |
|   | 774,986           | 9,347             | 784,333          |
| <b>Net (liability) / asset</b>                        | <b>(690,358)</b>  | <b>358,292</b>    | <b>(332,066)</b> |

#### 31 December 2013

|   | Level 2<br>€ '000 | Level 3<br>€ '000 | Total<br>€ '000  |
|---|-------------------|-------------------|------------------|
| <b>Assets</b>   |                   |                   |                  |
| Derivative financial instruments:                     |                   |                   |                  |
| Currency swaps  | 1,014             | -                 | 1,014            |
| Foreign exchange contracts                            | 14,082            | -                 | 14,082           |
| Forward fuel price contracts                          | 2,224             | 247,027           | 249,251          |
| Forward electricity price contracts                   | 916               | 158,566           | 159,482          |
| Interest rate swaps                                   | 23,934            | -                 | 23,934           |
| Financial assets at fair value through profit or loss | -                 | 48,791            | 48,791           |
|   | 42,170            | 454,384           | 496,554          |
| <b>Liabilities</b>                                    |                   |                   |                  |
| Derivative financial instruments:                     |                   |                   |                  |
| Currency swaps  | 130,213           | -                 | 130,213          |
| Foreign exchange contracts                            | 10,438            | -                 | 10,438           |
| Forward fuel price contracts                          | 54,908            | 659               | 55,567           |
| Interest rate swaps                                   | 29,525            | -                 | 29,525           |
| Inflation linked interest rate swaps                  | 465,590           | -                 | 465,590          |
|   | 690,674           | 659               | 691,333          |
| <b>Net (liability) / asset</b>                        | <b>(648,504)</b>  | <b>453,725</b>    | <b>(194,779)</b> |

When interpreting the positive and negative fair values of derivative financial instruments, it should be noted that they are matched with underlying transactions with offsetting risks. The fair value of derivative financial instruments is determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (g) Fair value hierarchy (continued)

#### Measurement of fair values - Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used.

| Type   | Valuation technique   | Significant unobservable inputs                            | Inter relationship between significant unobservable inputs and fair value measurement  |
|--|---|--|--|
| Currency swaps, foreign exchange contracts and interest rate swaps | <p>Level 2 - Present valuation of future contracted foreign exchange cashflows using constructed zero-coupon discount curve.</p> <p>The zero-coupon curve is constructed using the interest yield curve of the relevant currency.</p>   |  |  |
| Forward fuel and electricity price contracts                       | The fair value of forward fuel and electricity contracts is determined by reference to forward electricity, gas, coal and carbon prices with the resulting value discounted to present values.  | System marginal price (SMP)                                | The estimated fair value would increase / (decrease) if: SMP was lower / (higher). Generally a change in SMP is accompanied by a directionally similar change in Gas prices.   |
| Inflation linked interest rate swaps                               | <p>Level 2 - Independent valuations are used and validated using the present valuation of expected cashflows using constructed zero-coupon discount curve.</p> <p>The zero-coupon curve is constructed using the interest rate yield curve of the relevant currency.</p> <p>Future cashflows are estimated using expected RPI benchmark levels as well as expected Libor rate sets.</p>   |  |  |
| Financial assets at fair value through profit or loss              | <p><b>Discount cash flows:</b><br/>The valuation model considers the present value of expected cashflows. The expected payment is determined by considering the possible scenarios of forecast revenue and gross margin, future cashflows under each scenario and the probability of each scenario</p> <p><b>Market comparison technique:</b><br/>The valuation model is based on market multiples derived from quoted prices of companies to the investee and the expected gross margin of the investee.</p> | Forecast annual revenue growth rate; Forecast gross margin | Novusmodus typically assess the value of its investments based on our expectations of the proceeds which could be realised in a disposal. This value will usually be driven by a number of inputs including the ability of the investee to grow its revenue and associated margins, leading to higher EBITDA and thus higher values. |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

### (g) Fair value hierarchy (continued)

The following table shows a reconciliation from opening balances at 1 January 2014 to the period ended 30 June 2014 for fair value measurements in level 3 of the fair value hierarchy:

|                              | Financial assets at fair value<br>through profit or loss<br>€ '000 | Forward electricity price<br>contracts<br>€ '000 | Forward fuel price contracts<br>€ '000 | Total<br>€ '000 |
|------------------------------|--|--|--|-----------------|
| Opening balance              | 48,791   | 158,565  | 246,368                                | <b>453,724</b>  |
| Purchases                    | 12,710   | -  | -                                      | <b>12,710</b>   |
| Total gains or losses:       |  |  |  |                 |
| in profit or loss            | (1,618)  | -  | -                                      | <b>(1,618)</b>  |
| in OCI                       | -  | 1,707  | (62,629)                               | <b>(60,922)</b> |
| Settlements                  | (2,900)  | (13,147)   | (29,555)                               | <b>(45,602)</b> |
| <b>Closing balance - net</b> | <b>56,983</b>  | <b>147,125</b>                                   | <b>154,184</b>                         | <b>358,292</b>  |

Financial assets are carried at fair value through profit or loss. The fair value is based on the most recent fund valuation statement available. In relation to stand alone investments, the valuation methodology used is in accordance with International Private Equity and Venture Capital Valuation Guidelines which have been developed by a number of international venture capital associations. As this requires the use of model based valuation techniques, with a number of unobservable inputs, all financial assets at fair value through profit or loss have been categorised as level 3 investments in the current year.

Forward fuel price contracts and forward electricity price contracts included at level 3 in the fair value hierarchy relate to long-term contracts whose valuations are based on a number of forward price assumptions, with some unobservable inputs, including assumed forward electricity, carbon and gas inputs for longer term periods. Settlements form part of revenue and fuel costs in the income statement.

### Sensitivity analysis - level 3 fair values

For the fair values of forward fuel and electricity price contracts, financial assets at fair value through profit or loss and inflation linked interest rate swaps, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

|   | 30 June 2014  |  | 31 December 2013  |  |
|---|---|--|---|--|
|   | Other<br>comprehensive<br>income<br>Gain / (loss)<br>€ '000 | Profit before<br>taxation<br>Gain / (loss)<br>€ '000 | Other<br>comprehensive<br>income<br>Gain / (loss)<br>€ '000 | Profit before<br>taxation<br>Gain / (loss)<br>€ '000 |
| Gain due to 10% increase in gas and coal prices | <b>63,066</b>   | -  | 82,437  | -  |
| Loss due to 10% increase in the SMP             | <b>(39,216)</b>   | -  | (51,230)  | -  |



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 28. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

|  | June 2014<br>€'000 | June 2013<br>€'000 |
|--|--------------------|--------------------|
| Capital commitments contracted for during the period | <b>93,584</b>      | 83,856             |

### (b) Fuel contract commitments

There are a number of long-term gas supply arrangements in place for different periods up to 2020. These arrangements provide for pricing changes in line with changes in inbuilt energy market indicators. Where appropriate, embedded derivatives have been separated and valued in accordance with IAS 39.

### (c) Other disclosures

A number of letters of claim have been received in relation to 2009 flooding in Cork (Ireland); one claimant has issued legal proceedings seeking to recover circa €19 million for property damage. There is a possibility of additional property damage claims being brought in connection with the flooding, but ESB intends to strenuously defend all such claims. On the basis of advices obtained, ESB believes that it has a good defence to these claims, and accordingly, no provision has been made for such claims in the financial statements.

## 29. RELATED PARTY TRANSACTIONS

### Semi-state bodies

In common with many other entities, ESB deals in the normal course of business with other government sponsored bodies such as Bord Gáis and Bord na Mona. Long-term agreements are negotiated between ESB and Bord na Mona in relation to the purchase of peat for the Midland Stations.

### Board Members' interests

Other than agreed allocations under ESOP, Board Members had no beneficial interest in ESB or its subsidiaries at any time during the period.

### Banks owned by the Irish state

In the normal course of business ESB transacts with certain Irish banks which have become wholly or partially controlled by the Irish government. All of ESB's transactions with such banks are on normal commercial terms. ESB had no material concentration of borrowings with any such banks during the period or as at 30 June 2014. A portion of the cash and cash equivalents as disclosed in note 16 was on deposit with such banks.

### Equity accounted investees

During the period the Group provided services to its equity accounted investees, Oweninny Power Limited and Emerald Bridge Fibres Limited.

During the period ESB provided services to Oweninny Power Limited to the value of €0.4 million (June 2013: €0.5 million) and to Emerald Bridge Fibres Limited of €0.02 million (June 2013: €0.1 million).

No capital funding was provided to equity accounted investees in 2014. The group was not owed any funds from the equity accounted investees at 30 June 2014.

Interest on borrowings receivable from Emerald Bridges Fibres Limited amounted to €0.2 million for the period ended 30 June 2014 (31 December 2013: €0.4 million).

## 30. ESTIMATES AND JUDGEMENTS

Preparation of consolidated financial statements requires a significant number of judgemental assumptions and estimates to be made. These impact on the income and expenses contained within the income statement and the valuation of the assets and liabilities in the balance sheet. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation.

Key judgemental accounting policies are described in note 29 of the 2013 Annual Report. There has been no change to the nature of these during the period and they are still considered to be the most subjective in deriving our financial statements.

## 31. SUBSEQUENT EVENTS

On 2 July 2014, ESB and Vodafone signed an innovative joint venture agreement to invest €450.0 million in building a 100% fibre-to-the-building broadband network, propelling Ireland into the ranks of the world's fastest broadband countries. The fibre will be deployed on ESB's existing overhead and underground infrastructure, ensuring a fast and cost efficient roll-out to every county in Ireland and reversing the digital divide between the capital and regional towns.

## 32. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board approved the condensed consolidated financial statements on 24th September 2014.



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